OFFICE OF BUDGET AND PROGRAM EVALUATION

City of Boston

Fiscal Year 1993 Operating Budget

VOLUME I
Overview of the Budget

RAYMOND L. FLYNN, MAYOR
THOMAS G. SNYDER, DIRECTOR, ASD
BARBARA S. GOTTSCHALK, DIRECTOR, OBPE

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Fiscal Year 1993 Operating Budget

VOLUME I
Overview of the Budget

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

City of Boston, Massachusetts

For the Fiscal Year Beginning

July 1, 1991

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award for Distinguished Budget Presentation to the City of Boston, Office of Budget and Program Evaluation for its annual budget for the fiscal year beginning July 1, 1991.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

SPECIAL NOTE

In the program budgets which follow you will find many different performance measures. These performance measures include levels of service promised by departments, divisions, and program managers for FY93. The performance measures listed for each program do not, however, generally repeat existing City performance requirements which apply to all City departments. Indeed, an extra effort has been made to ensure that performance measures are relevant to the particular characteristics of each program in order to give the reader a sound understanding of the particular levels of service to be achieved as a result of the funding allocated to that program.

In addition to the stated performance measures, adherence to certain City-wide performance mandates is assumed. For example, the requirement of "operating within departmental spending authority" is an absolute. Likewise, all departments are expected to adhere to the City's Minority/Women-owned Business Enterprise policy highlighted in each departmental budget to reflect the City's commitment to this important directive.

Similarly, the City has, through the Goals process, established City-wide management goals which all departments are expected to meet. These City-wide goals relate to controlling sick leave usage, timely processing of vendor payments and minimizing absenteeism due to industrial accidents. Departments are expected to meet these goals even if no specific performance objectives are noted in their budgets. Statistics on each department's achievement of these goals are published quarterly, in addition to the other performance measures.

The purpose of program budgeting and program evaluation is to focus attention and responsibility directly upon program performance, and it is the City's intent to concentrate on that objective.

TECHNICAL NOTE

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Fiscal Year 1993
Operating Budget

VOLUME I
Overview of the Budget

BOSTONIA CONDITA A.D. 1630

CITY OF BOSTON · MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

April 8, 1992

TO THE CITY COUNCIL

Dear Councillors:

I transmit herewith my proposed Fiscal Year 1993 operating budget for the City of Boston and County of Suffolk. I am submitting a $1.316 billion budget, balanced for the eighth consecutive year. But for the first time in those eight years, unprecedented revenue shortages compel me to submit a budget that will begin to undo the tremendous progress we have made together over the years in providing essential services to the people of Boston.

A review of annual auditors' reports reveals that for the first time since 1930, including during the Great Depression, proposed city spending will fall for the second year in a row, chiefly due to state government's abandonment of revenue sharing with cities and towns. Boston is at a turning point in its capacity to deliver essential city services, care for the needy, and support the infrastructure essential to future economic growth. This $7.95 million decline in total revenues, when combined with inflation in fixed costs, results in the necessity of reducing departmental spending by a total of $19.3 million next fiscal year, for a two year decline in department budgets of $76.5 million.

This decline is all the more disturbing given that the state budget, which plays such a large role in determining city revenues, is going up next year by over $400 million. We can not sit back and allow state government indifference to municipal services to undermine the steady progress and credibility we have achieved together.

The severity and duration of today's fiscal challenge has now surpassed the challenge posed in the aftermath of Prop 2 & 1/2. After a dramatic one year drop in operating expenditures in FY 1982, the city budget by 1984 had recovered, with operating expenditures

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rising by 8.4%. By comparison, the city budget during the last three years fell by 1.3% with little relief in sight. The figures below show this point:

CITY EXPENDITURE COMPARISONS ($ in millions)

Expenditure		% Change	Expenditure		% Change
1981	$844		1990	$1,333	
1982	$790	(6.3%)	1991	$1,366	2.5%
1983	$852	7.7%	1992	$1,324	(3.1%)
1984	$915	7.5%	1993	$1,316	(.6%)

Cumulative: 1981-84: + 8.4%
1990-93: - 1.3%

This unprecedented situation has come about chiefly as a result of the state's withdrawal from revenue sharing and the restrictions of Proposition 2 & 1/2. If unchanged, the negative impact on essential City services will take on gathering momentum in the coming years and reverse the progress made in Boston's quality of life.

Boston's financial dilemma must be viewed in the context of the events following the onset of the Commonwealth's fiscal crisis. 1989 marked the final year of a successful state/local government financial partnership. Since that time, every City department has had its budget reduced. We have cut the City workforce to levels below those when I first took office. We have eliminated City agencies. We have consolidated many others to save money and gain operating efficiencies. We have mounted an aggressive and successful effort to control stubbornly growing fixed costs. And hard working City employees have been forced to go without pay raises for two years.

We have done our best to preserve essential services during this difficult period of time. We have prudently managed scarce revenues by directing funds to our priority services: schools, police and fire, health care for the poor and youth. Up to now, we have largely succeeded in shielding essential services from the impact of shrinking revenues by disproportionately reducing the entire City administrative apparatus, cumulatively down by 30.2% since 1989. Our commitment to essential services is amply demonstrated below:

PERCENT CHANGE IN SPENDING: 1989 - 1993

POLICE AND FIRE	+ 5.6%
SCHOOLS	+ 5.2%
YOUTH	+ 3.5%
HEALTH & HOSPITALS	+ 2.1%
ADMINISTRATION	- 30.2%

While this proposed budget continues to disproportionately reduce spending in administration, we can not run the risk of rendering ineffective the solid financial, administrative and management systems needed to properly conduct the City's business. Consequently, real cuts in essential services must begin to occur. It is the harvest of a broken state/local financial partnership. Some of the reductions in essential services follow:

o the Boston Police Department will be unable to fund a new class of recruits; it will be unable to make a scheduled purchase of new cruisers, thereby increasing the age of its fleet.

o the Boston Fire Department will see another delay in scheduled hiring of its next firefighter class at least until past the mid-point of the fiscal year, having foregone a new class altogether in FY 1992.

o the Health and Hospitals Department, while maintaining its commitment to building a new Boston City Hospital, will be forced to reduce services in its public health division and strain the day-to-day operation of its two hospitals.

o the Public Works Department will reduce by 11% its mechanical street sweeping both downtown and on major arterials; it will eliminate rubbish collection at the Haymarket; and it is forced to eliminate neighborhood clean-ups.

o the Parks Department will slow down daily rubbish removal from the Common and the Public Garden to three times per week; trash in neighborhood parks will be collected twice a week rather than every other day; the response time to tree service requests will increase from 6 weeks to 6 months; and the Public Garden Lagoon will be drained once rather than twice.

o Boston Community Centers will effectively cut one week from each summer pool operation; fewer children will be served at summer day camps; and support for the Boston Neighborhood Basketball League will drop by 6%.

o the Inspectional Services Department will have no funds for boardups or takedowns of privately-owned buildings; and it will have reduced capacity to respond to no heat and other emergency code violations on a 24 hour basis.

These impacts are the direct result of losing $80 million in state aid during the past three years and the Governor's plan to level fund local aid in FY 1993, notwithstanding the fact that state spending is slated for a substantial increase.

Boston, like most cities and towns across the Commonwealth, is at a turning point because the system for funding local government is broken. In 1981, in order to compensate for the loss of locally generated revenues following passage of the property tax limit, the Commonwealth adopted a proactive program of supporting local government services through annual revenue sharing. Local aid by the mid-1980s had become an essential component of local finance, in Boston's case its second largest source of revenue. But this policy, which forwarded a yearly share in growing state revenues to municipalities, did not survive the legislature and the governor's response to state overspending and the ensuing state fiscal crisis.

At first glance, recent local aid reductions - an $80 million cut in Boston - were considered to have been the understandable, if painful, result of the Commonwealth's deficit spending in the late 1980's made worse by the onset of the recession. The presumption was that the local aid policy per se would remain intact and resume its growth once state finances stabilized.

A closer analysis of the state budget reveals that the state government, without saying so, has abandoned local aid outright. And worse, it has offered no policy on municipal finance to replace it. The governor's FY 1993 budget makes the case. Including the tax expenditure effect of his proposed tax cut, Governor Weld's budget for FY 1993 effectively allows state spending to rise by $607 million, or 4.5%. In the midst of this substantial revenue growth, local aid is level funded. Thus, Boston will not receive one dime of a $607 million increase in available state revenues, a first in the history of state revenue sharing.

This proposed FY 1993 budget submission allows little space for new spending inititatives. Our focus necessarily is on protecting key services and discovering innovative ways to stretch limited dollars. A number of efforts are underway and merit attention.

The Boston Police Department is reallocating substantial funds to support management reforms, and improved police officer training, supervision, and accountability. Addressing many of the recommendations made by the St. Clair Commission, $2.1 million is being shifted to these purposes in an all-out effort to institutionalize community policing in Boston's neighborhoods.

We remain committed to maintaining our effort in providing summer employment opportunities for our young people. To that end, I have level funded summer jobs in the Youth Fund so that Boston's

young teenagers can prepare themselves for entering the job market as adults.

We have reallocated funds currently supporting the Policy Office to the Office of Safe Neighborhoods in order to capitalize on the widespread voluntary involvement of neighborhood residents working with the police to keep our streets safe. This office will work closely with the Police Department as it implements community policing in the coming years.

On the cost control front, we are continuing to aggressively tackle fixed costs. In my State of the City speech last January, I pledged to appoint a Labor/Management Committee on health care cost containment. These costs have skyrocketed in the last decade, diverting revenues from improved services. Already this effort has borne fruit and contributed to slowing the rate of increase next year to below historic experience.

I have established a risk management committee to identify and then reduce the City's exposure to risk-related costs including legal liability, insurance, medical disabilities, and workers' compensation.

Our success in the legislature last December on pension reform achieved a significant reduction in the City's pension costs in FY 1992 and will continue to bear fruit by having lowered the city's expenditure base.

The Transportation Department is accelerating its Fleet Management program designed to gain cost and operating efficiencies in managing and maintaining the city's large fleet of vehicles. The Elderly Department's Shuttle program most recently transferred responsibility for its vans to this program.

Included in this budget is a proposed appropriation of $374 million for the Boston School Department. With the addition of state, federal, and other grant funds, total school spending for the next school year will reach $441.6 million, a drop of 1.7% from last year. The new School Committee recently voted this spending level thus assuring for the first time since I took office that the City's largest operating agency will spend within its appropriation. And this school budget is noteworthy in that it increases the share of total dollars supporting direct classroom and instructional services, maintains existing teacher/pupil ratios, and reduces wasteful spending on administrative functions. The new School Committee and the Superintendent deserve credit for professionalizing the budget process.

Since taking office in 1984, we have taken justifiable pride in our ability to prudently manage city resources. Together with the City Council, we have dramatically improved services to the

neighborhoods, invested in our infrastructure with an ambitious capital program, provided growing support for the needy, and maintained a quality of life which fosters economic development. We have been publicly recognized for achieving all this while living within our means. Just a few months ago, Standard and Poor's and Moody's Investors' Services both renewed our 'A' bond ratings despite the difficult fiscal environment, allowing us to invest another $70 million at low interest in our neighborhoods, roadways, schools and parks.

Fiscal stability is the linchpin of economic growth, improved services, and compassion for the poor. Today, because of the Commonwealth's indifference to municipal finance, this stability is threatened. Reductions in services to the neighborhoods, the business community and the poor will undermine the years of hard work we put in to make Boston the best city in America. While this proposed budget keeps faith with the people by living within our means, the people deserve better.

Sincerely,

Raymond L. Flynn

Raymond L. Flynn
Mayor of Boston

EXECUTIVE SUMMARY

INTRODUCTION

The Mayor's FY93 Proposed Budget represents the eighth consecutive balanced budget for the City of Boston. This balance is in itself a significant accomplishment since Boston will be facing a second year of declining revenues in FY93. The failure of the state to maintain adequate revenue sharing for the fourth year in a row puts an extraordinary burden on the City of Boston. Never before in available financial records has there been an instance of two consecutive years of proposed budgets with declining revenues.

The sustained pressure of these declining revenues will have a serious impact on City services in the upcoming year. Although the Administration has continued to provide some financial protection to priority police, fire, education, and health care services, the ongoing drop in revenues means that even these services will be affected in FY93.

REVENUE OVERVIEW

Prior to 1989 the City had achieved a measure of fiscal stability attributable to a reasonable policy of state revenue sharing, a strong regional economy, and moderate growth of expenditures that left healthy surpluses at the end of each fiscal year. The economic downturn after 1989, coupled with spending deficits at the state level and the abandonment of the state's revenue sharing policies of the last decade, have had a drastic impact on City budgets since FY90.

The local aid crisis has been central to both the debate and the substance of Boston's budget for the past four years. Given the Mayor's commitment to maintaining a balanced budget, the 20 percent drop in local aid which Boston has experienced since FY89 is an overriding factor in shaping decisions about what municipal services the City is able to provide to people who live and work in Boston.

While it is well understood that continued state budget deficits had to be eliminated, resolving the state's financial problems does not justify a disproportionate reduction in critical revenues to cities and towns. Yet local aid represents only 18 percent of total state spending in FY93, a drop from 23 percent in FY80 – *before* Proposition 2 1/2 was passed. Figure 1 contrasts the change in Boston and state spending between FY90 and FY93. The state is simply passing on the most painful budget decisions to cities and towns which provide the services most directly affecting the lives of Massachusetts residents.

To the extent that local aid reductions cause a deterioration of critical services within the City, the Commonwealth's decision to reduce local aid is self-defeating. Boston is the economic center of

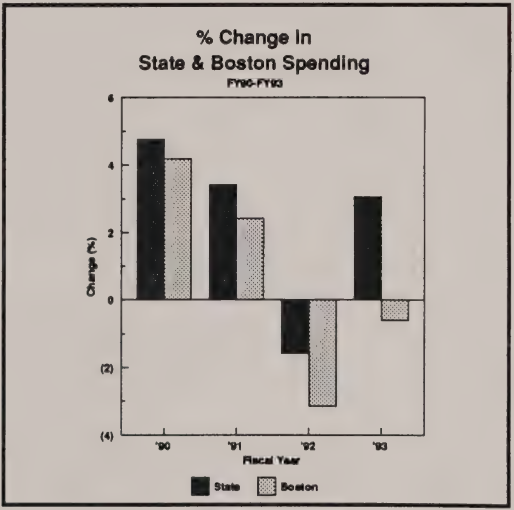


FIGURE 1

the region. Local aid reductions undercut the services that keep that center vital and attractive to economic investment benefiting the entire region.

In addition to underfunding local aid for the past four years, the state is also systematically forcing Boston to assume an extraordinarily disproportionate share of corrections costs compared to other communities. (See box.) This state policy shifts scarce local resources away from municipal services to cover what should be a state responsibility. The City is aggressively seeking to reverse this policy before the Commonwealth's FY93 budget is finalized.

ESSENTIAL MUNICIPAL SERVICES WILL BE MAINTAINED

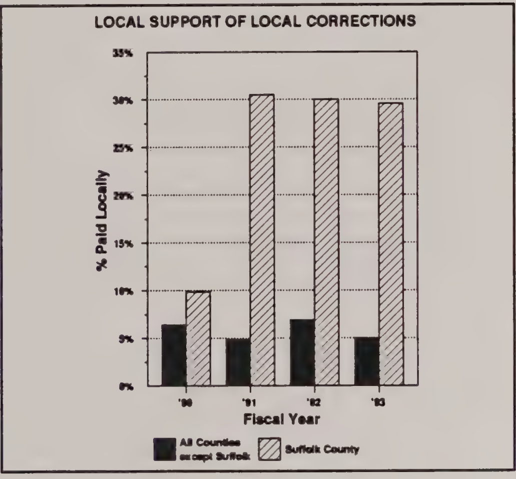
Since local aid reductions began in FY90, the Mayor has prioritized spending to focus resources on public safety, education, youth programs, and health services. The extent to which these priorities have been maintained is illustrated in Figure 2. Despite extremely severe reductions in other accounts, spending on these priorities has increased since FY89. These increases are, however, a result of higher departmental appropriations between FY89 and FY92. With the exception of funds to support the recommendations of the "St. Clair" Report, recommended appropriations in FY93 for even these departments will drop.

Public Safety. The Police Department budget will increase by $900,000. Within the total departmental budget, however, is $2.1 million to implement the recommendations of the "St. Clair" Commission. (See box.) Funding these improvements will preclude the addition of a new class of officers for the second year in a row. Normal attrition rates

BOSTON'S DISPROPORTIONATE CORRECTIONS COSTS

Suffolk County corrections costs have risen by 55 percent since FY89 due to construction of the new and much larger Suffolk County Jail and House of Correction. This means Boston will be paying an estimated six times larger share of the cost of maintaining the county correctional system than any other community in the Commonwealth, for two reasons.

First, Boston alone supports Suffolk County even though about 10 percent of the County's population lives outside the City. Second, and much more important, since FY89 the state has effectively limited the increase in corrections costs borne by every other community in the state to 2 1/2 percent a year.



The result is that in FY92 Boston will pay for 30 percent of Suffolk County corrections costs while all other local communities will, on average, pay for less than 7 percent of their respective county's cost. This discrepancy is estimated to grow in FY93 when Boston's share will again be 30 percent, while other communities' share will drop to only 5 percent.

mean that the number of police officers by the end of FY93 will drop to 1,900, or the July, 1987 staffing level. In addition, there are no funds to purchase the normal complement of 90 police cruisers in FY93. This will increase the average age of the cruiser fleet from 3.8 years to 4.6.

The last class of new firefighters was enrolled in February, 1991. The Fire Department's FY93 budget includes funds to add a small class in March and a larger class in June. This funding is adequate to maintain the essential "one and three staffing" for all engine and ladder companies, but will not permit the more desirable "one and four" ratios for most of the year. As a result of attrition, average staffing per shift in FY93 will fall to 276, rather than the optimal 300 per shift levels of FY91.

Education and Youth Services. The proposed School Department appropriation for FY93 represents a 5.2 percent increase over School Department spending in FY89. The City's commitment to improving Boston schools is reflected in the fact that the School Department appropriation represents a greater share of both total revenue and total department appropriations in FY93 than in FY89.

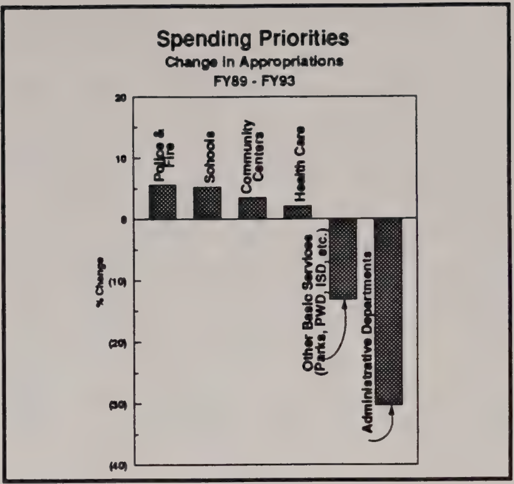


FIGURE 2

Despite a reduction from the FY92 appropriation, the new Boston School Committee has proposed a budget which increases the overall percentage of resources for instructional services, maintains current low pupil-teacher ratios, and increases funding for books and instructional supplies.

RESPONSE TO THE ST. CLAIR COMMISSION

The FY93 proposed Police Department budget includes $2.1 million to support the Department's planned implementation of the recommendations of the Police Department Management Review Commission (the St. Clair Commission). Total implementation costs, including expenditures in the current year and commitments for additional spending through FY99, will amount to nearly $10.8 million. This amount is supplemented by $3.68 million in current or planned capital projects.

The Department's focus in the upcoming year will be to improve management and training systems so that when resources are available to hire additional officers, the new officers' effectiveness will be maximized. The largest portion of the additional funding is to support the promotion of supervising officers to reduce the "span-of-control" and improve supervision.

Additional resources will improve training programs and substantially expand the Department's MIS capability through investment in additional PC networks in each district station, case tracking systems for investigations and internal affairs, and additional hardware to support improved management, planning, and communications systems.

Appropriations to support Community Centers have also risen since FY89, although more recent budget cuts have left staffing at many Centers stretched to the limit. Reductions in FY93 will reduce summer pool hours by the equivalent of one week at each pool. There will be fewer children served in summer camps and a 6 percent reduction in Boston Neighborhood Basketball League activities.

The Youth Fund has three components: $500,000 to fund small grants to neighborhood organizations to support youth related initiatives of the new Safe Neighborhoods Office; $2.5 million to continue the summer jobs program for young teenagers in cooperation with the Boys and Girls Club; and $750,000 to support the City's Alternative Education Initiative (AEI). Essential job training, basic education, and anti-dropout components of AEI have been salvaged after the former School Committee had dropped its support last June. A combination of the City assumption of overhead costs and new-found JTPA funding will make the most of $750,000 added to the Youth Fund for this program in FY93.

Health Care. The Department of Health & Hospitals appropriation for FY93, while maintaining basic operations at Boston City and Mattapan Hospitals, will require even more vigorous efforts to manage personnel resources effectively and control spending in non-personnel accounts. Funding has been provided to replace half of the City's ambulance fleet in accordance with optimal management practices. Funding is not adequate to replace the other half of the ambulance fleet, delaying the preferred two year replacement schedule by several months.

Current community health programs may be affected, but support for Boston's neighborhood health centers will be strained. The City will work with the health centers to ensure that this unique system for delivering health care is sustained to the maximum possible extent.

REDUCTIONS IN OTHER BASIC SERVICES

Public Works. Boston's streets and public spaces will be dirtier. Mechanical street sweeping on arterial and downtown streets will be decreased by an estimated 11 percent. Hand sweeping will also be reduced from FY92 planned levels. Response time to street light outages will be significantly slower. The Public Works Department's support of neighborhood clean-ups, bandstands for neighborhood events, and neighborhood Christmas trees will be virtually eliminated.

Parks. Trash collections in the City's major parks, including the Common, the Public Gardens, and Waterfront Park will be reduced from daily to three times a week. Neighborhood playground and play lot trash collection will be reduced from every other day to twice a week. Reduced funding for water and increasing water charges mean that fountain flows and watering will be restricted; park plantings and grass will more quickly show the affects of a summer drought. A reduced electricity account will shorten the season for lighted ball fields. Ball field maintenance and pre-game preparation will also be reduced as Parks Department maintenance staff is distributed more thinly. Summer programming will also be curtailed.

Inspectional Services. Inspectional Services will have a reduced ability to respond to emergency "no heat" or other code violation calls on a 24 hour basis. It will have no funding for emergency board-ups or takedowns of private structures. There are only very limited funds to respond to non-emergency animal complaints.

Administrative Departments. Administrative departments include such functions as auditing, budget, personnel, labor relations, and treasury. These departments will again feel the greatest percentage impact in budget reductions in FY93. Generally, administrative department budgets are reduced another 5 percent on top of the 28 percent reduction in FY92. As in prior years, concern about maintaining direct services has meant that administrative department budgets have been

reduced, on average, by three times as much as basic service delivery departments.

These FY93 reductions take place after three previous years of reductions during which the City has eliminated funding for the Freedom Trail, transferred the functions of the Mayor's Office of Jobs and Community Services to EDIC, reduced staffing for organizations like the Landmarks Commission, and consolidated eight City agencies to achieve administrative savings. There are currently 1,780 fewer City employees (excluding the School Department) than in January, 1989. The Proposed FY93 Budget reflects a further quota reduction of 258 from the FY92 Budget.

ADMINISTRATIVE EFFICIENCIES

In order to make the most dollars available to support municipal services, the City is continuing to aggressively pursue a range of cost-saving efforts and management improvements. These range from the Parks Department assuming more in-house responsibility for certain routine repairs, to a major audit of the City's self-funded health insurance expenditures.

The Mayor announced a cooperative labor-management effort to reduce employee health care costs last January. A joint committee is actively reviewing a variety of cost savings options. The City has organized a new Risk Management program to better coordinate cost control efforts. In addition to further efforts to reduce health care costs, a new workers' compensation tracking system is being installed, and the Workers' Compensation Division budget includes new staff to aggressively pursue reimbursements from the state's Second Injury Fund. The City will also embark on a new effort to recover Medicaid reimbursements for eligible services provided to Boston Public School students.

OUTLOOK FOR THE FUTURE

Municipal services for Boston residents and visitors are in jeopardy because of the state's abandonment of its commitment to share revenues from income, sales, and corporate taxes. Without this commitment to state revenue sharing, City services will become increasingly supported by the property tax, and thus will increasingly be burdened by the stringent limits placed on this revenue source by Proposition 2 1/2.

The FY93 Proposed Budget, with its second consecutive year of decline in total revenues, reflects four years of budget cuts for most departments. It is the first year in which these reductions will have a significant impact even on departments which provide the most basic City services. Unless there is a reversal of the local aid policy proposed in the governor's budget for FY93, these impacts only foreshadow still more difficult service cuts in the future.

SICUT PATRIBUS SIT DEUS NOBIS.

BOSTONIA.
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1630.

CIVITATIS REGIMINE DONATA A.D. 1822.

FINANCIAL TRENDS FOR THE CITY OF BOSTON

OVERVIEW

Prior to 1989 the City had achieved a measure of fiscal stability attributable to a number of positive factors described at length in previous budgets. In 1989, growth in the national and regional economies became sluggish, the regional real estate market's dramatic growth of the last several years was reversed, and the state budget showed further evidence of structural imbalance. These developments resulted in two years of deep statewide local aid cuts that ended several years of revenue growth for municipal budgets during the post-Proposition 2 1/2 era and ushered in an extended era of budgetary difficulties and challenges.

The City's revenues were severely impacted during the slowdown in economic growth in 1989 and the subsequent recession which began in mid-1990. FY91 was the fourth straight year in which the growth in revenues declined. FY92 will be the first year since FY82 in which the City will experience a decline in revenue. It was in FY82 that Proposition 2 1/2 first reduced dramatically the City's property tax levy.

The City has maintained balanced budgets and a high credit rating throughout this period of fiscal challenge, avoiding real fiscal crisis, and succeeding in maintaining most of the services restored since initial Proposition 2 1/2 cuts nearly a decade ago. Nevertheless, two consecutive years of decline in several major revenue sources have taken their toll on the full range of City services. Furthermore, the City has needed to utilize remaining reserve funds in order to mitigate service reductions.

A key to Boston's fiscal survival is the emergence of the Commonwealth from financial crisis. After several consecutive years of decline in its fund balance and two major operating deficits, the Commonwealth's financial planners have a balanced budget behind them (FY91) and the likelihood of a mild economic recovery occurring in the course of the upcoming fiscal year (FY93). During FY92 actual state tax revenues have consistently exceeded projections and around mid-year these projections were revised upward. This situation contrasts radically with the background against which the last two years' state budgets were debated.

The City has experienced, along with all of New England, the worst side of the national recession. Now some form of mild recovery appears likely. However, the City is not yet in a position to build an economic recovery into its budget plan because the two areas where such positive development could impact the City's budget most are property tax and local aid. To date, the governor and the legislature have not indicated a willingness to share the benefits of the recovery through increased local aid. In the case of property tax, it is unclear whether such a national economic turnaround would be enough to restore growth to the City's real estate market, where the cause of downturn lay in part in the dynamics of the local real estate market itself. Even if growth were restored, a vigorous year of commercial development in 1993 would not impact the City budget until FY95.

It is generally assumed that the U.S. economic recession may have already ended. However, some of the structural difficulties such as the trade deficit, the federal deficit, and corporate and individual indebtedness remain, making it highly un-

likely that this recession will be followed by a genuine growth spurt, as is traditionally the case in the year following a recession.

In order to improve the City's capacity for longer-term fiscal planning and analysis, a financial forecasting system was used by the Office of Budget and Program Evaluation for the five budgets from FY88 through FY92 with assistance from the State and Local Government Group at Data Resources, Inc. (DRI). Due to budget reductions, this system has been temporarily set aside in favor of a more general economic and financial trend overview.

THE ECONOMIC OUTLOOK

The City's financial situation is less dependent on general economic conditions than is the state's. However, the Commonwealth's tax revenues clearly are economy driven, and because the City is partially dependent on the state distribution of local aid to cities and towns, current national and regional economic trends have a substantial impact on the City's fiscal health. In addition, trends in the national financial markets impact the local real estate market which in turn has substantial impact on the City's largest source of revenue, the property tax. These trends, which remain largely beyond the City's direct control, partially define the economic, demographic, and financial environment in which the City operates.

The National Outlook

The recession from which the country appears to be slowly emerging began in mid-1990. Apparently, but not yet officially, it ended about one year later when most of the measures of U.S. economic activity reached at least local low points during the first half of 1991. The first quarter of 1991 was the second of the only two quarterly declines in the Gross Domestic Product. The last three quarters of 1991 have all recorded mild growth in the GDP. (Figure 1.)

During what appears to be a clearly identifiable peak to trough point in the recession, residential fixed investment was down 9.9 percent; there was a wage and salary income decrease registered be-

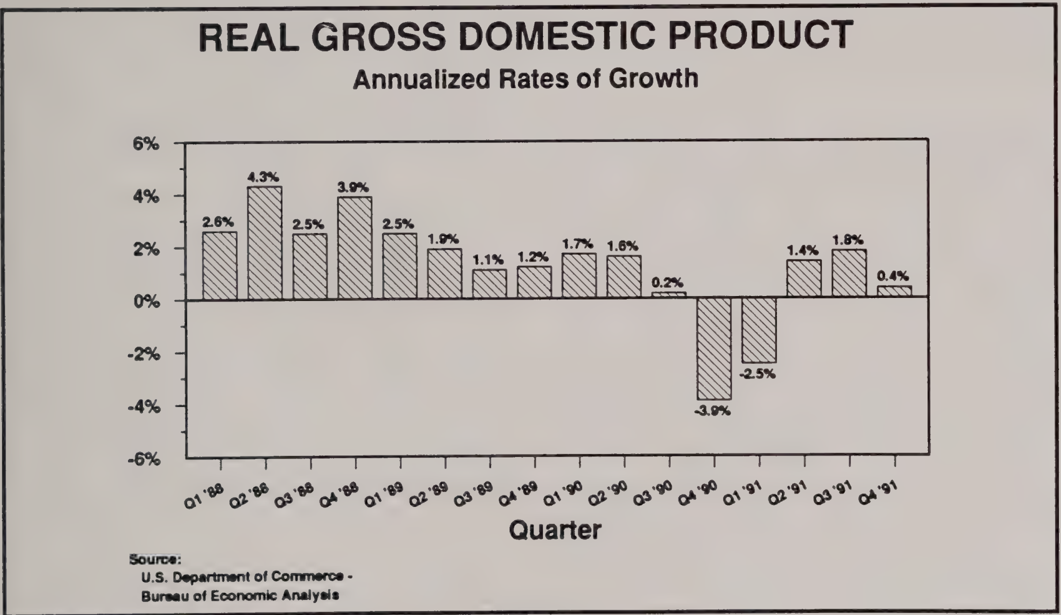

FIGURE 1

tween the fourth quarter of 1990 and the first quarter of 1991; personal consumption expenditures were down 0.9 percent. This latter drop, in the context of past recessions, is relatively severe. Positive offsets were federal purchases which increased by 3.8 percent and net exports which actually improved during the recession by 1.1 percent due to a 5.2 percent decrease in imports and a 3.0 percent increase in exports.

Assuming that the recession did indeed end last Spring, it appears that the recession itself as defined by peak to trough decline was relatively mild by postwar standards. The postwar average for such declines is 2.6 percent. This recession, assuming it ended in the Spring of 1991, induced a 1.3 percent decline in GDP. This situation begs the question: Why the popular perception that this is a relatively severe recession? One answer is simply that the last recession was so long ago, that memories have faded of difficult times produced by recessions. Furthermore, some of the preceding or concurrent events that took place engendered fears of a severe recession. These included a record collapse in consumer confidence, collapse of some very large U.S. banks, and the ongoing problem of massive public and private debt. Add to all this the sluggishness in economic activity that has both preceded and followed the recession, and the popular perception seems hardly surprising.

While the recession itself was mild, it was preceded in unusual fashion by an extended period of anemic growth. For a year and a half before the recession, the real GDP grew at an annual rate of just about 1.25 percent. Personal consumption of durable goods and residential fixed investment were already in clear decline during the year preceding the recession, and fixed investment by businesses experienced minimal growth in the year before the recession. Overall this period of substandard growth lasted 17 months and was the longest such period preceding a postwar recession.

A major factor in the current U.S. economic uncertainty is that the recent positive changes in economic activity have been relatively small. Most economists say the pace of the rebound from recession will continue to be slow. The quarterly measures for the Gross Domestic Product subsequent to the apparent end to the recession have been, (beginning with 1991, Q2) 1.4 percent, 1.8 percent, and 0.4 percent. Signs of stronger recovery have appeared in the first months of 1992, but the picture still remains somewhat mixed. Somewhat uncharacteristically, slow growth distinguished the year preceding recession, and whereas this relatively mild recession has been followed by three more quarters of sluggish growth, the general sluggishness of the economy has emerged as a common theme and longer-term concern for the U.S. economy. This very uncharacteristic early stage of an expansion makes it a reasonable possibility that the U.S. has just seen the first half of a recession which is temporarily catching its breath before resuming.

Due to the massive federal budget deficit which hit $269 billion in FY91 and is estimated to leap to $368 billion for FY92 (Congressional Budget Office, April 2, 1992), fiscal stimuli in the form of a temporary increase in federal spending is unlikely to be available to help lead the country out of recession. On the other hand, because inflation is more or less under control, the Federal Reserve Bank has been able to intervene decisively by effectively lowering interest rates.

Consequently, the Federal Funds Rate, the interest rate which the Federal Reserve Bank charges on loans to commercial banks, has decreased steadily since October, 1990, when it was slightly over 8 percent, to its current level of approximately 4 percent. What has been instructive in this intervention is the magnitude of interest rate reductions necessary to stimulate home and other major purchases that play so vital a role in economic expansion. Only in the most recent data available has there finally been a steady uptick in some key areas that would be affected by interest rates. For example, the value of residential construction contracts increased by 26.1 percent in December 1991 over the prior December. Home sales in the third quarter of 1991, the latest period for which data are available, increased by 6.5 percent over the prior year's third quarter. In both cases, however, while there was an increase over the prior year when the economy was

clearly experiencing a recession, the level of activity did not match the level during the same period two years prior.

Among key components of a significant recovery would be increased car sales, home sales and total retail sales. There has been some evidence of movement in these areas. The surges in retail sales in January and February — 2.1 percent and 1.3 percent, respectively — represented the first back-to-back increases of more than 1 percent since 1985. In February, sales of existing homes improved. Recent car sales data have been mixed.

Over the long-term, GDP growth has tended to diminish. Both the increasing federal deficit and shrinking gains in productivity have played a role. The annual average for the GDP between 1961-1971 was 3.8 percent; for 1981-1991, it was 2.3 percent. Both of these decades were notable for long-term expansions, but both decades began and ended with recessions. The federal deficit, which has been a drag on the national economy since the Reagan tax cuts of the early 1980's, is projected by the Congressional Budget Office (April 2, 1992) to grow by more than a third in FY92 and remain well above $300 billion in FY93. In addition, gains in productivity have been disappointing for two decades. Meanwhile, according to the Labor Department, the growth in the labor force which helped fuel the expansion of the 1980's, will be down sharply in coming years because of demographic changes.

The State Outlook

Massachusetts and all of New England experienced impressive growth through most of the 1980's, with employment and income gains surpassing other regions. This began to change in 1989; beginning in 1990 the region experienced the U.S. recession more deeply. The more severe impact from the recession in New England is due both to its very rapid expansion in the 1980's and the industry mix which made that expansion possible. For example, continued employment gains throughout the 1980's lowered the unemployment rate, causing labor shortages in some areas and subsequent high wage increases that could not continue indefinitely. Thus, over the period 1985 through 1989, total wage and salary gains averaged 9.4 percent per year in Massachusetts. In 1990 the increase was only 1.7 percent as unemployment began to grow significantly. In the first three quarters of 1991, average total wages and salaries decreased from 1990 by 0.8 percent. (Figure 2.)

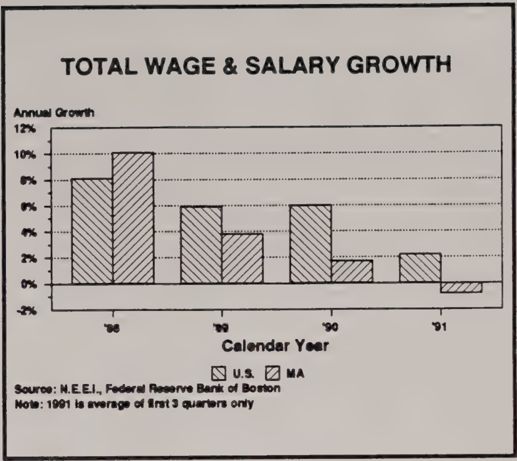

FIGURE 2

The higher personal income of the mid-1980's, fueled by wages and salaries as well as increased equity values, pushed up not only consumer goods purchases, but housing demand as well. Particularly after high interest rates earlier in the 1980's had excluded many people from the housing market, very strong demand pushed housing prices up an average of 13 percent per year between 1985 and 1989. By contributing to homeowners' feelings of wealth, the inflated real estate market had the side effect of fueling higher levels of consumer spending. Through increasing employment and income in the construction trades, the mid-1980's building boom had a similar effect on consumption.

In Massachusetts, the concentration in computers and finance aided the rapid growth, but more recently, these areas have suffered setbacks. The defense industry also contributed to rapid expansion, but this also made the state more vulnerable to world events which coincided with the U.S. recession. Massachusetts had reaped the benefits

of an expanding Defense Department budget, averaging annually $1,405 per capita during FY87-89 in prime contract awards (nearly a quarter relating to research), compared to the U.S. average of $514. An estimated 6 percent of goods and services in Massachusetts for 1989 was attributable to the defense sector. However, the end of the cold war has led to quick enactment of major cutbacks in defense spending. There appears to be sufficient consensus on the issue so that it matters little whether the Congress and the White House are presided over by Democrats or Republicans. In general, this is not good news for the Massachusetts economy.

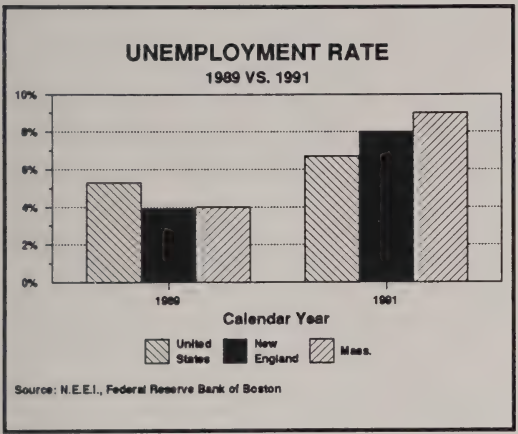

FIGURE 3

Illustrating the fact that New England and Massachusetts suffered more in the current recession, between 1989 and 1991 employment in the U.S. decreased by 0.4 percent; employment in New England decreased by 3.8 percent; employment in Massachusetts decreased by 6.7 percent. Similarly, U.S. unemployment averaged 5.3 percent in 1989, and in 1991 the average increased to 6.7 percent. This was mild, however, compared to the situation in New England, where over the same period unemployment went from 3.9 percent to 8.0 percent, and in Massachusetts, where unemployment went from 4.0 percent to 9.0 percent. (Figure 3.) Preliminary data also suggest that Massachusetts has recently been experiencing a significantly higher level of negative net migration than it did during the 1980's.

The finance and real estate areas have seen sharp declines. The decline of real estate markets and resultant bank losses have reduced profits and employment. Following healthy growth in the mid-1980's when total employment in finance, insurance, and real estate shot up from approximately 169,000 in 1982 to 222,000 in 1988, the sector has experienced significant retrenchment to a total employment of approximately 208,000 in 1991.

By 1989, a combination of the local building boom and a slowdown in other parts of the local economy resulted in an oversupply of both office and residential space. Construction has therefore become one area in which New England has recently shown much greater declines than the nation. Between 1988 and 1991, the value of new construction contracts dropped by 38.4 percent in Massachusetts, 40.0 percent in New England, and 12.3 percent in the U.S.

The employment outlook is better in some areas than others. For example, during the recession Boston has continued to experience modest growth in its securities and its health industry as other sectors have faltered. Similarly, construction costs for the Central Artery and Third Harbor Tunnel projects are estimated to be $4.4 billion (in 1987 dollars) and will generate an average of 3,700 con-

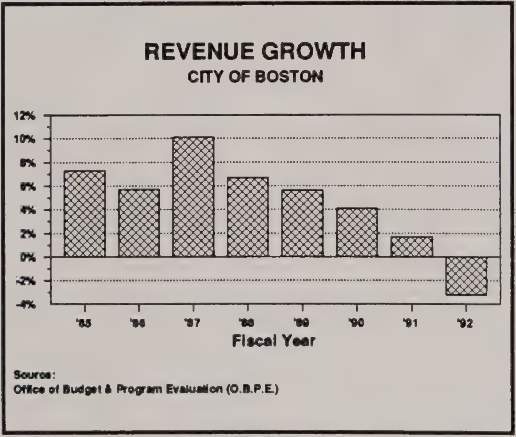

FIGURE 4

truction jobs per year during the peak construction period. A high portion of funding will be federal and thus represents an infusion of national funding into Massachusetts. Additionally, the $4.7 billion (1992 dollars) Harbor Cleanup project will employ an average of 1,730 construction workers during the construction period.

The Revenue Outlook

Boston's revenue outlook is guided largely by the three largest revenue sources: the property tax levy, local aid, and hospital reimbursements. None of the three are currently experiencing the healthy growth of the mid-1980's and they require close monitoring by the City. For property taxes and hospital reimbursements, the revenue structure is guided by state law. In the case of local aid, the amounts and sometimes the formulas governing distribution are altered during each state budget cycle.

Local Aid: A watershed event in the City's recent fiscal history occurred in March, 1989, when the House of Representatives rejected Governor Dukakis's call for tax increases and an increase in local aid in favor of its own proposal of no tax increases and level local aid. Up until that point, the City and other Massachusetts municipalities had experienced substantial increases in local aid since the passage of Proposition 2 1/2 as a kind of understood tradeoff in state-wide tax policy: Local property taxes remain capped while the state implements a revenue sharing program for its three largest taxes.

This was possible thanks largely to Massachusetts' thriving economy in the mid-eighties. Between FY85 and FY89 the average annual increase in local aid for Boston was 8.8 percent. The proportion of City revenues represented by local aid grew slightly over this time period, from 29.3 percent in FY84 to 31.6 percent in FY89. In short, the dependable nature of annual local aid growth up through FY89, teamed with an even more dependable solid growth in the property tax, anchored the City's full recovery from the debacle of Proposition 2 1/2 when the City's property tax plummeted from $518 million in FY82 to $333 million in FY84. (Figure 4.) The City was able to shake off a temporary two year dependence on sale of property revenues, restaff departments in which some basic services had been abandoned, and increase police and fire staffing. In addition, City workers received pay raises which allowed their salaries almost to keep pace with the Boston area's relatively high and growing costs.

As the state acknowledged and attempted to deal with its structural budget deficit, after FY89 it executed unprecedented and unpopular reductions in local aid to municipalities and welfare programs. Consequently, between FY90 and FY92 the City's local aid was reduced by $80.6 million. The City was able to more than offset the FY91 reduction in state aid with increases of over $20 million in both property tax and hospital receipts, as well as its highest appropriation ever in free cash drawn from available fund balance. But even with all these offsetting increases, total revenues in FY91 increased by only 1.7 percent, the smallest increase in the nine straight years of growth since the City had last experienced a decrease in revenues. In FY92 the City will experience its first decrease in total revenue since FY82 with decreases in hospital receipts, departmental revenue and free cash adding to the challenge of dealing with a level of local aid lower than it was in FY87.

In the FY93 proposed budget, the governor has presented a plan for level funding of general revenue sharing through FY95. At the same time the governor has proposed shifting Chapter 70 monies into a so-called "educational foundation aid" fund with grant-like restrictions. Although increases are proposed for this earmarked fund, the restrictions, in their current form, would bar many municipalities (including Boston) from receiving any of the increases in educational foundation aid. This proposal, if implemented, would finalize the state's abandonment of its commitment to genuine revenue sharing for support of the full range of municipal services and leave Boston and many other cities and towns heavily dependent on property tax revenues. The City intends to aggressively pursue reinstatement of the state's revenue

sharing policies of the mid-1980's in the coming months.

Property Tax: The property tax has been the City's most consistent source of revenue growth between FY85 and FY93. Every year from FY85 through FY92 the property tax levy has grown between 5 percent and 9 percent. About two-thirds of this is due either to new construction and renovation or to new parcels coming onto the tax rolls. The other third is due to the allowable 2.5 percent annual growth under Proposition 2 1/2. This contrasts strongly with recent experience of other major revenue sources. The subtotal of the City's three excise revenues, Health and Hospitals receipts, and departmental revenue all decreased in two out of the eight years from FY85 to FY92. All three of these revenue categories are expected to decline in FY93.

The steady and dependable growth in the property tax levy is not guaranteed indefinitely. Recently, there has been a significant decline in taxable new value. (Figure 5.) Commercial new construction, the largest component of new taxable value every year, has fallen off dramatically in comparison to the building boom of the mid-1980's. This decline is reflected clearly in building permit revenues, which are based upon cost of construction. In FY88, at a peak point of the construction boom in Boston, the City collected $14.4 million in building permit revenue. This has decreased every year since, with $6.7 million received by the City in FY91.

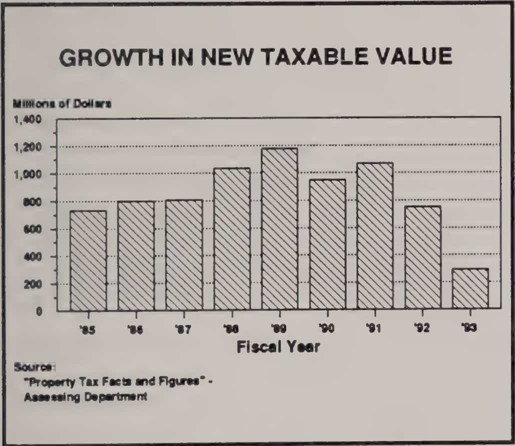

FIGURE 5

For FY92, the growth in taxable value (reflecting construction and real estate activity of calendar year 1990) decreased by 30 percent. The City's estimate for taxable new value in FY93 (reflecting construction and real estate activity of calendar year 1991), exclusive of the unique switchover of the commercial portion of the Prudential Center from special Chapter 121A tax status to normal property taxation, assumes a further 61 percent decrease in growth in taxable value when compared with FY92.

The steep decline in taxable new value assumed in the FY93 budget is one local end product of the downturn in the national and regional economy, as reduced business activity inevitably leads to higher vacancy rates and lower office lease rents, thus making new development a far less attractive investment. It does not appear that the increase in office vacancies is likely to reverse quickly. Furthermore, banks are reluctant to make loans for new development projects as they recover from the deterioration in their loan portfolios due to some of the failing projects already completed. Thus, it may be several years before taxable new value in Boston once again reaches the level of over $1 billion, which was the average taxable new value for development and real estate activity which occurred during calendar years 1986 through 1989.

Decreases are also found in some of the other forms of taxable new value that led to healthy growth in prior years, with condominium conversions and switchovers from exempt to taxable status being especially notable examples. Both categories had been driven upward by an active and appreciating real estate market. In the case of condominium conversions, the present downward trend could hardly be more dramatic. The City collects a condominium excise fee based strictly upon the number of units involved. For three years beginning in 1985, the City collected approximately $2.2 million per year in condominium conversion excise fees; in 1991 it collected $79,000. Meanwhile, the

amount of taxable new value derived from switchovers from exempt to taxable status for FY92 was the lowest it has been during the eight year span of post-Proposition 2 1/2 property tax growth.

The second major threat to steady annual growth in the levy has to do with the structure of the tax cap in Proposition 2 1/2. What drove the City's dramatic decreases in the levy between FY82 to FY84 from $518 million to $333 million was the Proposition 2 1/2 requirement that the City's effective tax rate be no greater than 2.5 percent. After FY84 this requirement became irrelevant for Boston as the limit of 2.5 percent in annual increase to the levy and the appreciation of real estate market values well in excess of 2.5 percent drove the effective tax rate down to 1.4 percent. Thus, from FY85 through FY92, the effective requirement limiting levy growth has been the limit of 2.5 percent for annual levy growth. However, as a result of the dramatic decrease in values reflected in the January 1, 1991 revaluation, the effective tax rate shot up from 1.5 percent to 2.0 percent. Under the relatively unlikely scenario that real estate values continue to fall significantly over the next 20 months, the City would face the possibility of reaching the 2.5 percent tax rate cap by FY95. The impact would depend on if and by how much the January 1, 1991 tax base decreases by the next revaluation date of January 1, 1994. A 15 percent decrease would result in the City reaching the cap and not being able to increase the levy by the traditional 2.5 percent.

Hospital Revenues: Most of the City's hospital receipts are derived from Boston City Hospital (BCH), but the City also operates one chronic care hospital. (It previously operated a second chronic care hospital, Long Island Hospital, which was closed in 1991.) The level of revenues derived from the operation of BCH is determined largely by health care cost-containment legislation. This legislation, most recently revised in December 1991 as Chapter 495, for the period beginning October 1, 1991, governs health insurance reimbursement methodologies for all acute care hospitals in the state and provides for an uncompensated care pool which pays the costs of free care to hospitals, including BCH, which have rates of free care exceeding the state-wide average.

The mix of revenues at BCH is not typical of the average hospital. BCH provides care for the City's poor and uninsured and for a large portion of the uninsured outside of its market area; within its market area, it serves only a small portion of the privately insured. Consequently, BCH's uncompensated care has been subsidized by Medicaid, which is supported 50 percent by the state and 50 percent by the federal government, and by the uncompensated care pool which is supported by a surcharge on medical rates. With the passage of Chapter 495, BCH's uncompensated care will no longer be subsidized by Medicaid, but its reimbursements from the uncompensated care pool will essentially increase enough to make up the difference.

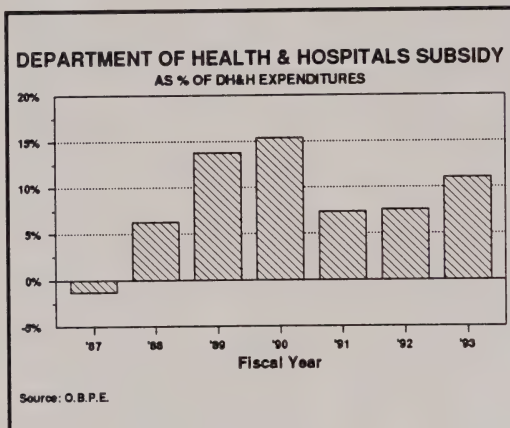

FIGURE 6

Between FY84 and FY91 the amount of revenue collected from Boston City Hospital and Long Island Chronic and Mattapan Chronic Hospitals equaled approximately 95 percent of costs. Thus, over those years the actual City subsidy to hospital operations has been but a fraction of its overall costs. However, the size of this subsidy has varied substantially from year to year, thereby making the

hospital subsidy a volatile component in the City's budget. (Figure 6.)

In general there is a tendency for the state Medicaid system to delay payments or delay implementation of higher rates as it attempts to maintain an unrealistically low Medicaid appropriation. More often than not the resolution comes with supplemental budgets passed near the end of the fiscal year. This is one reason why the City has recorded an average of 18.5 percent of its hospital receipts in the month of June for FY88 through FY91. There is also a small amount of allowable accrual that impacts June but not other months.

Chapter 495, in comparison to prior state hospital reimbursement legislation, gives acute care hospitals far more latitude in setting their prices. Hospitals are allowed to set their own prices for outpatient services. For inpatient services, a price cap is set within each diagnostically related group, and an annual inflation factor can be applied to the cap. It is generally recognized that the inflation for the cost of local medical services far exceeds national levels. Previous legislation attempted to rein in this high inflation in part by using lower national cost indices as the basis for annual price adjustments. The switch of strategy to at least a partially market-based price setting structure is evidence of the limited success of this approach.

In November, 1990, BCH gained final approval of a federal mortgage guarantee, and approximately $169 million was borrowed to cover the rebuilding costs for the BCH facility. Construction is more than 40 percent complete. The rebuilding plan is such that operations and reimbursements will not be negatively impacted during the course of construction and renovation. The new facility will allow a more self-sufficient financial operation, involving a smaller work force and greater efficiency of operations over the forecast period. These changes will help to maintain a balance between costs and reimbursements in the future.

Nonrecurring Revenue and Free Cash: When the City's property tax levy had to be reduced in three years from $518 million to $333 million, the City accessed available reserves and sold City-owned properties. Over 8 percent of the FY84 operating budget was supported by nonrecurring revenues. The City was able to cut this dependence in half in FY85 with most of that year's nonrecurring revenue coming from the sale of three City-owned garages. Subsequent to FY85, the sum total of nonrecurring revenue and free cash appropriation has been kept at a modest level ranging from 1.3 percent to 2.8 percent. The City was able to appropriate so-called "free cash" from available fund balance for every budget between FY87 and FY92. However, no budgetary fund balance is likely to be available in FY93 because of the substantial draw down from reserves in prior years.

In spite of the lack of available fund balance, the City will have more than sufficient nonrecurring revenues to maintain a balanced budget. Due to the fact that the Central Artery Project needs to take over a number of City-owned parcels on which the City operates income producing parking lots, the City will be compensated for the sale of these properties. It is the City's intent to spread these funds over several budget years and, as a matter of budget policy, to minimize use of nonrecurring funds in every operating budget.

The Expenditure Outlook

Personnel Spending: Approximately two-thirds of the City's departmental spending is in the form of direct salaries and wages to employees. Nearly all major collective bargaining contracts have expired without replacement. Most contracts expired nearly two years ago, on June 30, 1990. While the contract with teachers does not expire until August, 1992, their last raise was in FY91. Negotiations have not progressed given that the City has no discretionary funds available from which to make collective bargaining increases. Any increases could only be derived from reductions in the workforce itself. In spite of the starkness of this current situation for City employees, they have actually fared slightly better than their counterparts working for the state, who have not received a collective bargaining increase since FY89. When it became apparent that the City would experience an even deeper reduction in local aid in FY92 than in FY91,

it withdrew its offers off the bargaining table in February, 1991. Thus, the current FY93 budget assumes no collective bargaining increases.

Pension Costs: A home-rule petition (Chapter 450) was passed in December, 1991, which amends the allowable structure of the pension funding schedule for the City. Using this flexibility, the State-Boston Retirement System has come to agreement with the state actuary on a funding schedule which fully funds the system over a shorter time period (over the next 29 rather than 37 years), but which also incorporates the system's significant actuarial gains of the last three years into the first half of the schedule, thereby significantly reducing the required pension appropriation for the next several years.

The 1987 Commonwealth Pension Reform Act gave Massachusetts local retirement systems the option to change fundamentally their method for financing retirement costs. Boston's State-Boston Retirement System became the first local system to elect the "fully-funded" option. In doing so Boston committed to switching from a "pay-as-you-go" method of financing its pension costs to a fully funded method of financing, beginning in FY90.

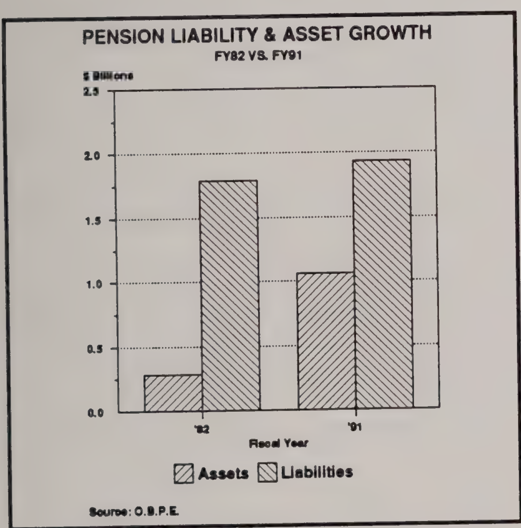

FIGURE 7

This change impacted the City's long-term outlook on pension costs.

Under a pay-as-you-go method, the actual pension payroll for current retirees serves as the main basis for each year's pension appropriation. Under this method, a newly founded system has very little expense for the first several years. However, each year the current employees "earn" a portion of their future pension benefit. As a greater number of employees retire, actual pension costs rise significantly and continue to rise for many years. For example, in FY69 Boston appropriated funds for pension costs equal to only 6.0 percent of its total departmental costs. Between FY69 and FY80 this percentage grew every year except one to finally reach 13.7 percent. At a certain point a retirement system "matures;" a full complement of retirees passes through the system, and the number of retirees on the pension payroll stabilizes. This state of maturity contributes to the fiscal soundness of a retirement system. Boston's retirement system reached this state of "maturity" several years ago.

Under a fully funded method of financing, a system sets aside funds for future pension liabilities as they are incurred by current employees. An actuarial determination is made as to what percentage of the personnel payroll is sufficient to fund the future retirement costs accrued by employees for any given year. Assumptions about mortality, investment rate, salary growth, turnover rate, entry and retirement ages, and other aspects of a retirement system contribute to this determination. The resulting future liability incurred during any one year is called the "normal cost."

Under the 1987 Pension Reform Act, the conversion from a pay-as-you-go system to a fully funded system involves a transition of up to 40 years. During that transition the "unfunded accrued pension liability" is gradually reduced to zero. The unfunded accrued pension liability is the total of all the accrued benefits earned but not yet paid to the employees and the retirees, less any available assets. The amortization payments are allowed to grow at an annual rate of up to 4.5 percent, in accordance with the law.

Until the City's unfunded pension liability is reduced to zero, the City's annual pension costs will essentially consist of two components — the "normal cost" and the amortized portion of the unfunded liability. These components are laid out in a "funding schedule" that is updated periodically until the unfunded pension liability is eliminated. At that point, the "normal cost," or currently incurred liability, will be the only pension cost which the City will have to continue to fund.

Originally, under the Pension Reform Act, when accepting the local option provisions, a local retirement system had to appropriate at least its pay-as-you-go costs for the first six years of its funding schedule. This is the clause which was eliminated locally for Boston with Chapter 450. Chapter 450 allowed the City to do straight actuarial funding beginning in FY92, rather than waiting until FY95. In January, 1992, Boston completed a full valuation of its pension system and gained approval of a new funding schedule. Boston's pension appropriation decreased by over 10 percent for FY92 through FY94 as a result of actuarial gains since the last valuation and the removal of the pay-as-you-go minimum rule. Meanwhile, the outlook for the next pension funding schedule update two or three years hence appears favorable. The City had one of its highest rate of returns on asset investment during 1991, and pension liabilities are not growing because the City continues to be under severe pressure not to increase payroll spending. (Figure 7.)

Debt Service: Following the approval of Proposition 2 1/2 in 1980 and the subsequent suspension of the City's bond rating, the City ceased raising funds in the capital markets and deferred planned capital projects. Without new borrowings, principal and interest on long-term debt declined. This reduced expenditures for debt service in the short-term, but it jeopardized the condition and quality of the public infrastructure necessary to support future economic growth.

In FY84, the City returned to the capital markets to finance long deferred capital projects. Since then the City has entered the market eight times for general obligation borrowings, and once for a refunding of general obligation bonds with high interest rates. The annual cost of servicing both this

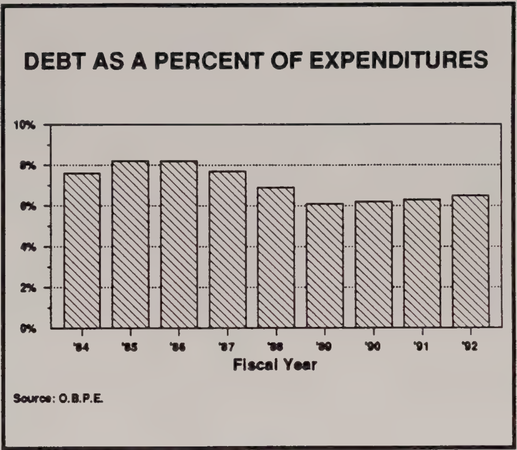

FIGURE 8

new debt and previously incurred debt has increased only marginally. And as a percentage of recurring expenditures it has remained low in comparison to the recent past: from FY84 - FY87 it ranged from 7.6 percent to 8.2 percent; from FY89 - FY92 it has ranged from 6.1 percent to 6.7 percent. (Figure 8.) Assuming the City maintains the current five-year plan, and assuming no major surprises in the long-term outlook for overall expenditures, it appears likely the City will be able to maintain the lower range of 6 percent to 7 percent for debt service as a percentage of total recurring expenditures during the mid-1990's.

Several factors have contributed to this favorable position in the recent past. First, the City has slowed down the rate of capital expenditures in response to reductions in local aid without making the fundamental error of abandoning capital spending altogether and thereby allowing the infrastructure to deteriorate. Second, the rating agencies have recognized the City's improved financial condition and have raised its bond rating several times to the current levels of "A" by both Moody's and Standard & Poor's; this has improved the City's image in the capital markets. Third, the City has managed its cash flow such that short-term borrowings were not needed in each of the last four fiscal

years. In spite of the state of the economy and the dramatic setbacks of the last two years in local aid, the City was able to continue this success with rating agencies by maintaining its credit rating, and in the markets with a successful bond sale in February in which the City obtained favorable interest rates.

CONCLUSION

While the state was bound in a seemingly intractable fiscal crisis that resulted in profound reductions in local aid to municipalities, the City was able to make the necessary budget adjustments. Though the economy, which inevitably impacts the City's revenue stream, is now slowly emerging from a recession, this has only improved the fiscal atmosphere without providing specific positive impact. The City's last six budgets have been balanced and its capital and pension financing are both on very sound footing. The current proposed budget for FY93 should allow the City to maintain a manageable, although by no means ideal, level of services. Meanwhile, the City's ability to maneuver has been dramatically reduced because of last year's budget reductions and its use in the last two years of available fund balance.

LOCAL AID

The local aid crisis has been central to both the debate, and the substance of Boston's budget for the past four years. Boston's spending is largely driven by available revenues. The Mayor's commitment to maintaining a balanced budget means that the 20 percent drop in local aid which Boston has experienced since FY89 has become an overriding factor in shaping decisions about what municipal services the City is able to provide to people who live and work in Boston.

In FY89 local aid represented 32 percent of total City revenues. In FY93 local aid has dropped to 25 percent of total revenues. This drop, and the manner in which this change has occurred, makes local aid the largest and most unpredictable element in the City's revenue. The future of local aid funding raises fundamental questions for Boston and other municipalities in Massachusetts about the future of municipal services. In other communities, actual fiscal survival has been raised as an issue.

In order to describe the fundamental nature of the local aid crisis facing Boston, one needs to examine the role of local aid in Boston's revenue stream, the relationship between local aid and property tax revenues since the passage of Proposition 2 1/2, and the history of local aid changes since 1989. This review leads to the disquieting conclusion that the City is facing an uncertain financial future. There needs to be widespread and serious discussion about the consequences of not renewing the Commonwealth's local aid policies of the mid-eighties and/or replacing local aid with some significant and reliable alternative revenue source.

BOSTON'S LOCAL AID REVENUE

Local aid currently represents 25 percent of City revenues. A small change in a revenue item of this size has a significant effect on spending, especially considering the proportion of the total budget that supports either fixed costs or critical City services. Failure of a revenue item of this magnitude to grow at a rate which keeps pace with inflation will quickly force significant expenditure reductions.

The property tax, the only revenue component larger than local aid, has grown by an average of 6.6 percent over the past four years, 2 percent greater than inflation. Local aid, on the other hand, has fallen at an average of 3.7 percent over the same period. The property tax and local aid together represent 67 percent of total revenues. The decline in local aid has pushed total revenue increases to below the rate of inflation in FY90 and FY91, and caused an actual decline in FY92 and FY93. Boston has never before experienced two consecutive years of decline in total revenues.

Absorbing these reductions has been extremely difficult because so much of the City's appropriated budget supports departments which provide the most basic municipal services. Looked at from the spending side, 28 percent of total expenditures are devoted to fixed costs and employee health benefits. An additional 58 percent of total expenditures support public safety, corrections, schools and health and hospitals—priority services that the City has tried to protect. Assuming no reductions to these budgets (but also no increases for inflation) a 10 percent drop in local aid would require a 6 percent reduction in all remaining City department budgets including the Parks, Inspectional Services, Library, and Public Works Departments. After several years of significant cuts to these department budgets, it is easy to see that the priority services must also eventually face budget reductions as well.

LOCAL AID AND PROPOSITION 2 1/2

Throughout much of the 1980's, local aid played an important role in offsetting the impact of Proposition 2 1/2.

The Aftermath of Proposition 2 1/2. Prior to 1980, Massachusetts cities and towns relied on the property tax as their principal source of revenue. During the middle and late 1970's, the strains of inflation forced increases in municipal budgets and property taxes. The state was undergoing a crisis of its own and reduced local aid to solve its problems. The resulting rapid increase in property taxes led to great citizen anger and eventually to the passage of Proposition 2 1/2. Specifically designed to limit the escalating burden of the property tax on homeowners, the proposition passed overwhelmingly.

Under Proposition 2 1/2, the property tax levy cannot exceed 2 1/2 percent of the cash valuation of the taxable real estate and personal property in a municipality. Where levies exceeded the 2 1/2 percent limitation, annual reductions were required until the 2 1/2 percent limitation was achieved. Once this limitation was reached, annual growth in the levy was limited to a 2 1/2 percent increase, plus any additional levy from new construction in the current year.

The property tax reductions in the early 1980's to achieve the 2 1/2 percent levy limit created a painful hardship for communities throughout the Commonwealth. One hundred-seventy cities and towns cut their levies at least once between FY82 and FY85. Except for the wealthier and some smaller communities, virtually all of the Commonwealth's cities and towns were compelled to make significant cuts in budgets, programs, and payrolls beyond what they believed wise and prudent. Proposition 2 1/2 had a corresponding dramatic effect on municipal bond ratings. Between December, 1980 and December, 1984, 37 Massachusetts

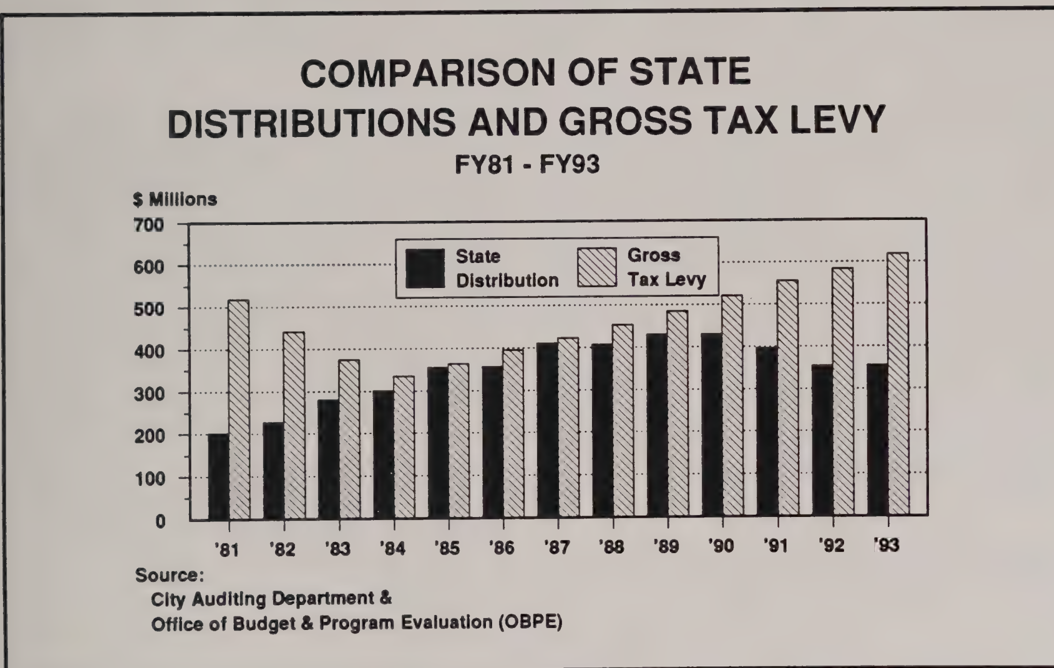

FIGURE 1

communities suffered a downgrade by Moody's bond rating service, while only six were upgraded.

In Boston, Proposition 2 1/2's immediate effect on tax receipts was catastrophic. From FY81 through FY84, Boston lost over $400 million in tax revenue. Its property tax levy fell by $185 million. The City's bond rating dropped and then was suspended as a result of the property tax rollback.

The Local Aid Offset. The impacts of these levy reductions were softened after FY82 largely because of the immediate increase in the City's local aid receipts. Local aid in FY83 increased by $45 million, or 21 percent. The net result was that City spending returned to above the FY81 level by FY83.

State and local leaders understood that while homeowners believed property tax levels were aggravatingly high and needed to be reduced, most also wanted to maintain critical municipal services. As a result of this understandable, albeit contradictory, attitude, the Commonwealth pledged that it would henceforth share 40 percent of its so-called "growth" taxes in the form of direct, general purpose local aid with its cities and towns. (The "growth" taxes are the Commonwealth's income, sales and corporate excise taxes.)

This policy led to a dependable level of local aid growth beginning in FY83 through FY89. In essence, the Commonwealth created a general revenue sharing program by returning tax dollars back to cities and towns from whence they came, but distributed in a manner that took into consideration the revenue capacity and services needs of those communities. Communities became dependent upon this funding mechanism.

The 40 percent pledge was only actually achieved in half of the years between FY84 and FY91, generally as a consequence of lower than projected revenues, rather than increased concern for cities and towns. But the state's policy of sharing its growth revenues did lead to local aid growth through FY89. In FY81 local aid amounted to about one-fifth of all municipal revenues statewide. In FY89, by contrast, it represented almost one-third of all local revenues.

Boston's experience was typical: local aid was 20 percent of all General Fund revenue in FY81. By FY89 it had increased to 32 percent. (Figure 1.) This increased local aid did not translate into rapidly increasing spending on the part of the City. It simply mitigated the impacts of the Proposition 2 1/2 limitation. Local aid amounts, when added to Boston's own tax receipts, were still not enough to bring Boston's revenues back to the FY81 level for some time. It was not until FY86 that City tax receipts plus local aid exceeded FY81 nominal amounts. And in constant dollars, the total of local aid plus the property tax levy is still considerably below its 1981 level.

WHAT IS LOCAL AID

- As generally used, "local aid" means state distributions to municipal general revenues from the state's Chapter 70 and additional assistance accounts (which are jointly referred to as resolution aid) and lottery distributions. The amount of these funds to be distributed each year to an individual community is described (along with other relatively smaller state programs such as equal education opportunity funding, school construction reimbursements and highway funds) on the "cherry sheet," so named because it is printed on bright pink paper.
- In general, the amount of true revenue sharing each community receives is somewhat less than the cherry sheet total because the state also assesses cities and towns for significant costs such as a portion of the MBTA's debt service. The governor's FY93 Proposed Budget suggests a substantially different local aid concept. It combines many different cherry sheet items into three categories: education foundation aid; general revenue sharing aid; and estimated lottery distribution.

Limited Tax Levy Growth in Recent Years. Even after FY84, Proposition 2 1/2 provided stringent limits on tax levy growth. The total levy could grow only at the rate of 2 1/2 percent, plus the value of new construction. This meant that nine years later in FY90, total property tax levy amounted to only $2 million, or four-tenths of one percent, more than the levy collected in FY81, despite the fact that inflation averaged 3.7 percent annually between 1984 and 1989.

Over 60 percent of the growth in Boston's property tax levy between FY84 and FY91 ($138.5 million) is a result of an atypical construction boom. The softening of the state's economy and the associated drop in new construction has significantly reduced property tax revenue growth. The new growth levy continues to decline in FY93 and is smaller than at any time in the past nine years.

Increasing Over-Reliance on the Property Tax. Massachusetts cities and towns currently have few opportunities to broaden their municipal tax base; the only available local option taxes are the jet fuel and room occupancy excises. Although Boston has taken full advantage of these options since 1985, they add only a modest amount to total City revenues. Nationally, cities with a population of 300,000 or more generate, on average, only about 37 percent of tax revenues from property taxes, because sales and income taxes allow for a more diversified tax base. But in FY93, 93 percent of Boston's local tax revenue will come from the property tax levy.

In the mid-1980's state revenue sharing in the form of local aid was a critical element in indirectly diversifying the tax revenues that support municipal services. The very heavy direct dependence on the property tax had been mitigated by access to growth in state sales and income tax revenues. These local aid dollars had become basic funding for public services — police and fire protection, education, public works, and health care — that municipalities are expected to provide.

For example, state-wide, about 59 percent of all local revenues came from property taxes in FY81. This had been reduced to 46 percent by FY88. With local aid reductions beginning in 1989, however, levy revenues had again increased to over 50 percent of total municipal revenues state-wide by FY91.

LOCAL AID REDUCTIONS SINCE 1989

Unfortunately for both the Commonwealth and cities and towns, the exceptionally strong state revenue growth in the mid-1980's came to an abrupt halt in FY88. This slowdown in revenues, coupled with substantial state deficit spending, spurred in part by the sense of confidence caused by the earlier revenue growth, produced the state's fiscal crisis.

Local Aid Cuts. The Commonwealth's attempts to balance its recent budgets have had disastrous consequences for cities and towns. In FY90 the legislature eliminated the increase in local aid recommended by the governor, despite the fact that communities had come to depend on local aid increases as an ongoing growth revenue source.

More painful were the local aid vetoes and withholdings announced by the governor in July of 1989. Of $491 million in total reductions, a disproportionate $225 million (55 percent) came in the form of reductions to cherry sheet distributions. This was in spite of the fact that local aid and other assistance to communities accounted for only 31 percent of the pre-veto budget. The fact that these withholdings were returned by the Supreme Judicial Court on a one-time basis has had little long-term impact on municipal revenues.

In August of 1990 local aid was again reduced after most communities, including Boston, had enacted their FY91 budgets. This time it was the legislature that enacted a 4 percent reduction without the opportunity for communities to describe the impact of this action at public hearings.

In response, cities and towns mounted a referendum campaign to direct 40 percent of all state growth tax revenues into local aid. Widespread public support for this proposal was clearly demonstrated in the substantial margin of approval for Question 5 in November 1990's referendum

vote. Despite this vote, however, and notwithstanding a campaign pledge to the contrary, the governor proposed to cut cherry sheet aid for FY92 by an additional $107 million, on top of the $355 million in cuts already made over the past two years. By late June, the legislature had further reduced local aid by an additional $135 million.

The governor's FY93 budget proposes no increase in local aid for the the next three years. Assuming an inflation rate of 4 percent, this translates into an effective additional $41 million local aid reduction for Boston between FY92 and FY95. Although the governor proposes an additional $187 million state-wide to support local education, earmarked funds with maintenance of effort requirements do nothing to solve the local aid crisis for cities and towns. The requirement to maintain spending for schools in the face of shrinking local revenues only forces disproportionate reductions in public safety, health care, and other basic municipal services.

For Boston, local aid reductions effectively translated into a $20 million local aid cut in FY90, an additional $19 million cut in FY91, and an additional $43 million cut in FY92. The cumulative impact of local aid reductions since FY89 amounts to $118 million in lost local aid through FY92.

Disproportionate State Cuts Borne by Cities and Towns. While municipal leaders through the Commonwealth recognized that continued state budget deficits had to be eliminated, resolving the state's financial problems did not justify a disproportionate reduction in critical revenues to cities and towns. The Commonwealth experienced several years of exceptional revenue growth before the revenue slowdown in FY87. For four straight years, beginning in 1984, the growth in personal income tax receipts was 10 percent or higher. From 1984 through 1986 the growth in overall sales taxes was 15 percent or higher, and from 1984 through 1986 corporate income tax receipts grew by 12.5 percent or more. In FY89 these three

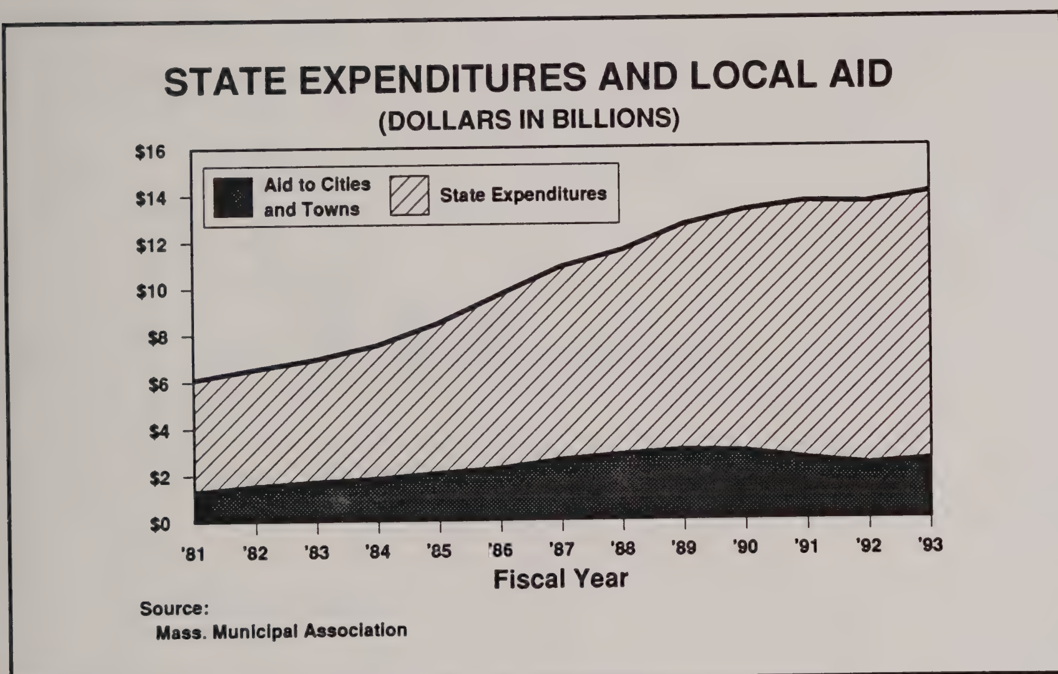

FIGURE 2

growth taxes represented 82 percent of total Commonwealth tax receipts and 63 percent of total state revenues. As Figure 2 shows, however, this strong growth was not shared proportionally with cities and towns.

The moderate growth in local aid during the good years makes it doubly difficult to accept the fact that reduced local aid is seen as a solution to the state's problems without regard to local consequences. With the exception of higher education, local aid suffered the largest cut of any significant state expenditure category in the past three years. The extraordinary extent of this withdrawal of commitment is reflected in the fact that in FY80, before Proposition 2 1/2 was passed, 23 percent of the total state budget went to local aid. In FY93 the governor is proposing that only 18 percent of total state spending support local aid.

Figure 3 contrasts the change in Commonwealth spending since FY86 with the much slower growth in Boston expenditures. Between FY84 and FY91 Boston's spending, on average, grew by 5.9 percent per year, while Commonwealth expenditures, net of local aid, grew by nearly twice as much or 11.2 percent per year. In FY92 Boston's spending drops by twice as large a percentage as the Commonwealth's. In FY93 the state budget is projected to increase by 3 percent while the City's budget continues to drop.

Local Aid - An Investment in Economic Growth. Boston is essential to the region's economy. With 10 percent of the state's population, the City is responsible for fully 23 percent of all the goods and services produced in the Commonwealth. Boston hosts 33 colleges and nine of the country's top teaching hospitals, supporting valuable research in new technologies which translates into the development of new local industries. These non-profit colleges and hospitals which have access to City services do not contribute to the property tax base. In fact, half of the City's land is tax exempt,

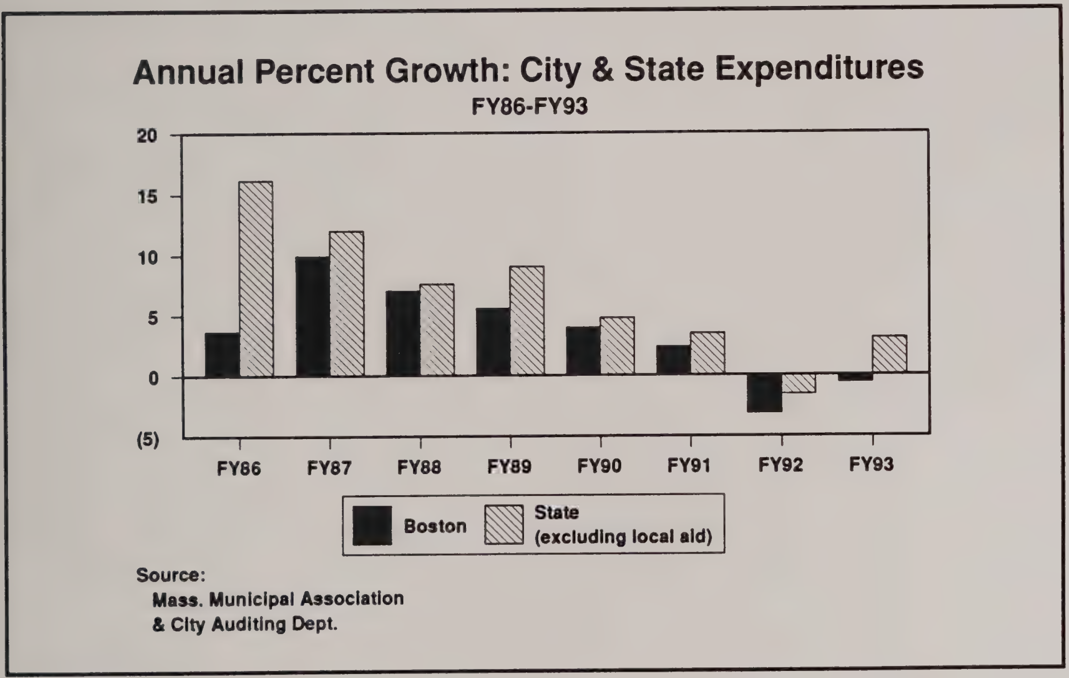

FIGURE 3

with 26 percent being owned by the Commonwealth.

The impact of local aid cuts on the City is compounded given that Boston faces extraordinary demands for services at the same time that so much of its land is exempt from property taxes. The population of the City doubles during the day as commuters and visitors enter the City. As a result, the City must provide police and fire protection, and has to clean up after twice as many people as it would otherwise. In addition, few large municipalities nation-wide assume, as does Boston, such a wide array of fiscal responsibilities including schools, hospitals and county costs. Boston finances a far greater share of county corrections costs than any other municipality in the state.

To the extent that local aid reductions cause a deterioration of critical services within the City, the Commonwealth's willingness to reduce local aid is self-defeating. If Boston is the economic engine that helps to drive the Commonwealth's economy, local aid reductions undercut the services which keep that engine running.

CONCLUSION

Heavy reliance on the property tax, coupled with the restrictions imposed by Proposition 2 1/2, limits Boston's ability to raise revenue to pay for basic municipal services. While the effect of these restrictions was somewhat mitigated in the 1980's because of increased local aid from the Commonwealth, the reductions in local aid since FY89 have heightened awareness of the fragility of this source of compensating revenue. The events of the past four years have clearly demonstrated that Boston must have more predictability and control over its revenue stream, in order to provide the essential services which residents, businesses, and visitors expect of the City.

COMPARATIVE REVENUE ESTIMATES AND ANALYSIS

INTRODUCTION

Following is a description of all City revenues which are deposited in the General Fund, as categorized in the Summary Budget. Most revenues received by the City are included in this chapter which discusses property tax levy, state distributions, hospital reimbursements, departmental income, excise taxes, and other significant revenue sources. The descriptions include the recent history of each revenue source, and a description of the FY93 projections.

For four straight years beginning in FY88, the rate of revenue growth declined. FY92 will mark the first year since FY82 in which total revenues will actually be less than the year before. The single biggest factor in this slowdown is local aid which was dramatically reduced in FY91 and FY92. This contrasts starkly with the steady and dependable growth in local aid to cities and towns during the 1980's. Essentially, from FY90 through FY92, the state resorted to reduced assistance to cities and towns in order to address its own budget difficulties. Local aid is level funded in the governor's FY93 budget proposal, and no increases are projected through FY95. Departmental receipts will weaken in FY92 and FY93 due in part to some of the unique items received in the prior years not recurring in similar magnitude. Furthermore, the use of budgetary fund balance in FY91 and FY92 to help offset the cutbacks in state distributions cannot be replicated in FY93.

There are two areas of major revenue growth that will help mitigate the bad news in other areas during FY92 and FY93. During both years, the property tax levy will experience modest growth. Non-recurring revenue, attributable to the sale of land for the Central Artery reconstruction, will also assist in limiting the impact of declines in other areas.

PROPERTY TAX LEVY

The property tax levy has been the City's most dependable source of major revenue growth during the past nine years. In FY93 the net property tax levy will provide 44 percent of all City revenue. The increases have been steady and consistent from FY85 to FY92, ranging from $28 million to $36 million. (Figure 1.) It should be noted, however, that because of the increasing property tax levy base, the $30 million in FY85 represented an 8.9 percent increase, while the $35 million increase estimated for FY93 represents only a 6.0 percent growth rate.

Property Tax Levy Under Proposition 2 1/2. When Proposition 2 1/2 was approved, the City's property tax levy was significantly higher than 2 1/2 percent of assessed cash value. The City was required to reduce its property tax levy by approximately $78 million in FY82, $66.1 million in FY83 and $41.3 million in FY84, resulting in a FY84 levy of $333 million, and in a reduction in tax revenue compounded over three years of $406.8 million. The FY84 property tax levy was the lowest it had been since 1971.

Once the mandated property tax reductions were achieved in FY84, the City could then anticipate regular growth in its property tax revenues in following years due to (1) the allowed 2 1/2 percent increase, plus (2) the value of new construction added to the tax base. Because of the pressing demand to restore sorely needed City services, the City chose to maximize revenue growth allowed under Proposition 2 1/2. In the first year, FY85, the allowable 2 1/2 percent increase produced an addition of $8.3 million to the levy. As the levy base

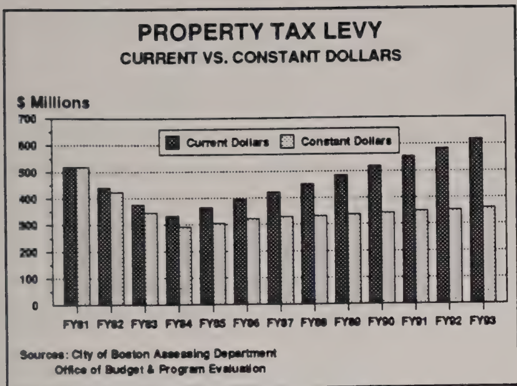

FIGURE 1

has increased each year, so has the 2 1/2 percent increase, reaching $14.6 million for FY93. (Figure 2.)

The arbitrary nature of the allowable 2 1/2 percent increase in the levy has been noted by legislators and special commissions studying both state and

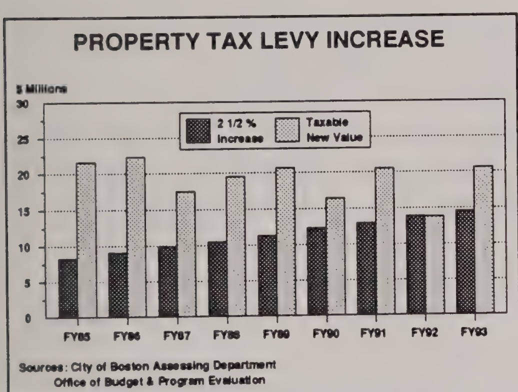

FIGURE 2

local fiscal problems. With inflationary costs for providing City services ranging between 5 percent and 8 percent, a 2 1/2 percent increase has not allowed cities and towns to support an adequate level of services via property taxes. From FY82 until FY89, increases in local aid became the vehicle for maintaining adequate local services. In the past three years a significant portion of this source has, in effect, been "taken back" because of the state budget deficit. Cities and towns are left with implementation of major cutbacks in municipal services as the only alternative to an unbalanced budget.

Proposition 2 1/2 allows growth in the levy beyond the 2.5 percent limit for any new properties and any increases in property valuations which are not related to municipal-wide revaluations. Prior to an amendment to Proposition 2 1/2 passed in March, 1991, the allowance for new growth had been more limited: certain residential property had to have more than a 50 percent increase in valuation; and commercial, industrial and personal property had to have more than a $100,000 increase in valuation. This modest change in the law has given a small one-time increase for municipalities at a time when the slowdown in commercial new development has limited their annual levy increases.

The total increases in levy attributable to taxable new value in FY91 and FY92 were approximately $22 million and $14 million, respectively. The tax levy projection presented in the FY93 budget assumes an increase of $20.6 million in the levy due to taxable new value. However, approximately two-thirds of the new growth is attributable to a shift of the commercial portion of the Prudential Center from a chapter 121A status to the regular property tax roles. Since the City will be losing over $10 million from the 121A excise, the net impact on the City's bottom line is much smaller than the levy growth due to the Prudential's change in tax status. Without this reclassification, the value of the FY93 new growth is estimated to decrease by 61 percent from new growth in FY92.

It took eight years, from FY82 to FY90, under the restrictions imposed by Proposition 2 1/2 for the levy to finally return in current dollar terms to its FY81 high. In constant dollars, however, the FY91 tax levy is still over 31 percent less than FY81's levy total, and this is in spite of the addition of $7.3 billion of new taxable value onto the property tax base between FY85 and FY92.

Property Values in Boston. During the 1980's, the value of property located in Boston ex-

perienced a very high rate of appreciation. This was reflected in each of the last decade's three triennial City-wide revaluations completed by the Assessing Department. The first revaluation resulted in a certified property valuation of $12.2 billion as of January 1, 1982. The second City-wide property revaluation established the value of taxable property in the City as of January 1, 1985 at $20.2 billion. The third City-wide revaluation established the value of taxable property in the City as of January 1, 1988 at $35.4 billion.

In the last two to three years, Boston's real estate market growth has been reversed. Home prices declined and activity in both the commercial and residential markets has slowed dramatically. Meanwhile, office vacancy rates have significantly increased and downtown development has been minimal. All of this was reflected in the fourth City-wide revaluation, establishing values as of January 1, 1991 at $29.8 billion. This represented an 18 percent decline from the prior year's total taxable value.

Limiting the Residential Tax Burden. Between FY83 and FY92 the residential tax rate dropped from $21.47 per $1,000 valuation to $11.18; the rate for commercial and other property declined from $40.30 to $34.27 per $1,000 valuation. The differing rates for residential and commercial property are the result of the City's utilization of the so-called classification law, added to the state constitution in 1978 and amended in 1988. Cities and towns are given the option of determining the share, within specific limits, of the annual levy derived from the various categories of property. Prior to the 1988 amendment, the portion of the levy derived from residential property had to be at least 65 percent of its share of the total taxable value. Similarly, the portion of the levy derived from commercial, industrial, and personal property could not exceed 150 percent of its share of the total value. The 1988 amendment changed these parameters from 65 percent to 50 percent, and 150 percent to 175 percent respectively with one significant qualification: that the adoption of a lower residential factor could not result in the residential burden of the total property tax levy being lower than its lowest percentage since the state first certified the municipality's values as representing 100 percent fair cash value. From FY83 onward, the City has classified its tax rates in order to minimize the residential tax burden to the full extent allowable by the classification law.

New Property Tax Collection Options. The Budget Control and Reform Act of 1989, signed by the governor in January, 1990, attempted to give cities and towns some new options in administering property taxes. Boston and many other municipalities opted for the change which allows property tax bills to be sent on a quarterly rather than semi-annually basis. The City adopted this measure in time for mailing the FY92 property tax bills out on a quarterly basis. As a consequence, the City has a more steady cash flow and a modest increase in investment income. The quarterly billing has also aided the City in maintaining its record since FY87 of not having to do short-term borrowing within the year in order to meet its obligations. This is impressive given the current budget difficulties.

STATE DISTRIBUTIONS

No other factor has had as profound an impact on Boston's operating budget as the breakdown of the Commonwealth's local aid funding policy. Between March, 1989 — when the House of Representatives rescinded the last proposed net increase in unrestricted local aid — through the enactment of the FY92 budget, the governor and the legislature embarked on a course of defunding state revenue sharing with cities, towns, and regional schools. Between FY89 and FY92, state-wide "cherry sheet" aid declined $598 million or 20 percent while all other state spending increased by $1.2 billion or 12 percent during the same period.

Currently, in the opening round of the FY93 state budget cycle, there is a proposal by the governor to begin a multi-year commitment to change state policy from general revenue sharing with municipalities and toward earmarking all increases in state support to local education. What follows are descriptions of resolution aid, the governor's

educational aid proposal, lottery, and the teacher pension reimbursement.

Resolution Aid: Revenue Sharing in Response to Proposition 2 1/2. Throughout most of the 1980's, a reasonable annual increase in resolution aid was an essential component in Boston's financial planning. Boston is substantially more dependent than most major U.S. cities on property tax revenues. The enactment of Proposition 2 1/2 would have had an even more serious impact on the delivery of basic City services had it not been offset by increases in local aid between FY82 and FY89. The Commonwealth recognized that state revenue sharing in the form of local aid was essential to maintaining critical local services.

Up through the enactment of the FY92 budget in the summer of 1991, the stubborn persistence of the state's economic and fiscal problems resulted in a continuing downward pressure on revenue sharing to cities, towns, and regional school districts. The single largest reduction in resolution aid occurred in the FY92 budget when resolution aid was reduced by $329 million.

The defunding of local aid fundamentally altered the financial relationship between the state and its municipalities, ending an eight year period (FY82 - FY89) in which a stable and dependable local aid funding policy allowed for planning and predictability in local budgets and services. Estimating state cherry sheet distributions has, consequently, become problematic. FY93 will be the fourth straight year in which there have been no actual approved local aid allocations available prior to the submission of the Mayor's budget to City Council.

Currently, the three largest components in state distributions to Boston are resolution aid (which includes Chapter 70 education aid), lottery distributions, and teacher pension reimbursements. Lottery distributions are a second, relatively smaller component of general revenue sharing. The teacher pension reimbursement is unique to Boston because the teachers in the other 350 municipalities in the Commonwealth have their pensions paid directly by the teachers retirement system which is funded directly by the state. Highway funding, which heavily impacts some smaller communities but is relatively unimportant to Boston, is another element shaping the state's revenue sharing policy.

FY93: The Governor's Educational Foundation Aid Proposal. The FY93 state budget proposal, currently being reviewed by the House Ways and Means Committee, contains legislation which would dramatically alter the distribution of local aid. General education aid, "Chapter 70 money," would be removed from "resolution aid," and combined with four other education accounts on the cherry sheet. Severe requirements would limit access to this newly named "Educational Foundation Aid." Chapter 70 is the largest account in the Educational Foundation Aid grouping. In FY89, Boston received approximately $67 million in Chapter 70 aid or 19 percent of the schools' budget; in FY92, Boston received approximately $45 million, or less than 12 percent of the City schools' $382 million budget. For some communities, perhaps those targeted by the proposal, general education aid exceeds their school budget, and there is concern that the recent local aid reductions have been passed along disproportionately to school systems. However, in their current form the restrictions proposed alongside the governor's Education Foundation Aid are not realistic: 1) Any funding to municipalities would be through an educational grant; 2) In order to receive even last year's base amount of Educational Foundation Aid, a city or town must not decrease the FY93 school budget below the FY92 appropriation; 3) In order to receive any increase in aid a school system must spend less than the statewide average. With these attached restrictions, Boston would definitely not receive any of the $187 million in proposed new Educational Foundation Aid.

This proposal raises some very basic public policy questions. What about other pressing municipal needs such as public safety which need to be met by local governments? If a local revenue base which often represents a much larger portion of a city's or town's total revenues than local aid is diminishing, the community may not genuinely be able to increase its school budget. The governor's

education funding proposal may, in fact, seriously undermine all other municipal services.

Lottery Distributions. As noted in Figure 3, the City's share of state lottery distributions, an important component of local aid, steadily eroded during the 1980's from 17.5 percent in FY80 to less than

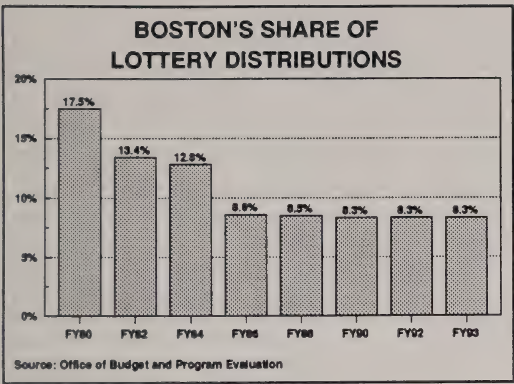

FIGURE 3

9 percent from FY86 onward. The main factor which lowered Boston's share of lottery proceeds was the emphasis in the lottery distribution formula on equalized valuation per capita. Equalized valuation increased more dramatically for Boston than most other municipalities in the mid-1980's, thereby driving down the City's lottery share. If the lottery formula was relevant and important today in determining lottery distributions, Boston most likely would be seeing a modest upswing in its lottery share as its real estate values have decreased relatively more than the average Massachusetts community. However, lottery distributions have remained static since FY90, both because the total distribution was capped at that time, and because beginning in FY88, the state applied the formula only to increases in the lottery. Up through FY89, the lottery had been a source of annual revenue growth for most municipalities and is one further reason why more recently municipalities have been struggling to balance budgets and maintain services.

Teacher Pension Reimbursements. Boston's "cherry sheet" includes an item unique to the City: the teachers' pension reimbursement for pension charges to the City. Boston is reimbursed for the prior year costs associated with pensions paid to retired Boston teachers. After remaining in the $20 million to $22 million range from FY84 to FY89, the reimbursement increased to $23 million in FY90, $26 million in FY91, and $26.4 million in FY92. This increase has been driven by an increase in teacher retirements. Because of the older demographic profile of the City's teachers, the City expects this growth to continue. The FY93 projection is $27.2 million.

The pensions paid to retired teachers from all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System. In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost; the City is reimbursed on the cherry sheet by the Commonwealth. In short, the Boston teachers' pension payroll is administered locally, but as with all other teacher pensions in the state, is the financial responsibility of the Commonwealth.

HOSPITAL INCOME

The City currently operates two hospitals: Boston City and Mattapan. Boston City Hospital, the largest, is a 357 bed acute care hospital which for the last seven years has accounted for over 80 percent of the City's hospital reimbursements. Mattapan is a chronic care hospital with operations significantly smaller than Boston City Hospital. For public health reasons and due to changes in federal reimbursement policies, the Department of Health and Hospitals closed the Long Island chronic care facility at the end of FY91. Over the years, Long Island's expenditures tended to exceed its reimbursements as the facility became less appropriate for chronic care.

In FY88, FY89, FY90, and FY91 the City recorded reimbursements from the hospitals totalling $147.3 million, $154.7 million, $158.0 million, and

$179.9 million, respectively. The significant increase in FY91 was due largely to the payment of settlements of prior year Medicaid and Medicare rates. Such payments are realized in most fiscal years; however, the City does not expect as high a level to be realized in FY92 or FY93 and has projected revenues of $168.2 million and $158 million, respectively.

The magnitude of the increase for FY91 also reflects action by the legislature to rectify the state's failure over the past several years to process Medicaid bills in a timely fashion. Recognizing the accumulated amounts of Medicaid payments owed to hospitals and nursing homes throughout the state, the legislature authorized borrowing to support payments owed from previous years. Thus, a significant "catching up" on settlements for past fiscal years is reflected in the healthy FY91 hospital reimbursements total. This "catching up" continues a long tradition which has generally been characterized by periods of delayed reimbursement alternating with suddenly accelerated or lump-sum payments to catch up with prior years' liabilities. In some years this has occurred because of delay in replacing acute care hospital reimbursement legislation which has expired, or gradual implementation of the new legislation.

In recent years the largest form of payment for the patients cared for at Boston City Hospital is reimbursement for uncompensated care coming from both the state-wide uncompensated care pool and Medicaid; the second largest form of payment is Medicaid; the third, Medicare. Blue-Cross/Blue-Shield and commercial insurance play a smaller role than at most hospitals due to the nature of Boston City Hospital's patient population, nearly 80 percent of which is drawn from the hospital's surrounding lower income neighborhoods and are often includes non-insured and non-paying patients.

Since October, 1985, inpatient Medicare payments for Boston City Hospital and all other Massachusetts acute care hospitals have been governed by the Medicare prospective payment diagnostic related group method of reimbursement (PPS). The prospective payments are based on national and regional diagnosis related group rates without regard to specific acute inpatient operating costs. Outpatient costs, on the other hand, have generally remained cost-based.

Chapter 574 of the Acts of 1985 established a state-wide uncompensated care pool which is funded from an add-on to billing rates for hospitals with less than the state-wide average of uncompensated care. This pool reimbursed hospitals such as Boston City Hospital based upon their disproportionate share of uncompensated care. Boston City Hospital has received over $20 million per year from the uncompensated care pool.

Chapter 495 of the Acts of 1991, the most recent legislation governing state-wide health-care reimbursement, moved Massachusetts decisively in the direction of market-driven pricing. Hospitals are allowed to set outpatient rates. For inpatient services, prices are capped within each diagnostically related group. Chapter 495 also converted the uncompensated care pool to a free care pool by eliminating payments to hospitals for bad debts. This will allow Boston City Hospital to recoup a larger share of the pool because a very low proportion of the persons receiving uncompensated care at Boston City Hospital have sufficient income to be classified as "bad debts." This should offset any potential decrease in the higher disproportionate share rate traditionally received by Boston City Hospital from Medicaid.

In the fall of 1990 the City secured a Federal Housing Administration loan guarantee and proceeded to finance the renovation and new construction project for Boston City Hospital. Upon completion of the single largest capital project ever planned by the City, Boston City Hospital will be a far more efficient and modern facility.

CHAPTER 121A

The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-tax for which the state acts as the collector and distributor. This revenue item experienced very solid growth between FY81 and FY88, going from $13.5 million to $32.3 million. Since FY88, this revenue source has remained

relatively stable. In FY92 the City has projected Chapter 121A, section 10 distributions of \$31.4 million. The projected FY93 decline to \$23.7 million is due to the Prudential Center development withdrawing from Chapter 121A classification.

The Chapter 121A legislation, passed in 1960, allows local governments, in cooperation with their redevelopment authorities, to suspend the imposition of property taxes at their normal levels on properties determined to be blighted, in order to encourage redevelopment of such properties by special corporations organized under this legislation. (Boston at the time had gone through an extended period of limited major new development.) The formula for the 121A, section 10 excise in-lieu-of-tax is the greater of: (a) \$10 per \$1,000 of value established at the time in which the excise first becomes payable plus 5 percent of gross income, or (b) the current tax rate times the average of the last three years' assessments (or the current assessment if that is less). As of FY92, these state coordinated collections are no longer included on the "cherry sheet."

DEPARTMENTAL REVENUES

In FY93, departmental revenues will account for about 10 percent of all General Fund revenues. The fee and fine levels for many departmental revenues is under the direct control of the City. For example, changes in the City's fee or fine structure can occur from either administrative actions or a vote of City Council, unlike new tax options or local aid distributions which require approval from the state legislature. The most recent package of fee and fine increases was proposed, approved and implemented just prior to the beginning of FY91. Not under control of the City, however, is the level of economic activity that determines the number of permits or licenses or even fines which will be issued by the City. Recently, due to the economic slowdown, the City's departmental revenues have decreased. (Figure 4.)

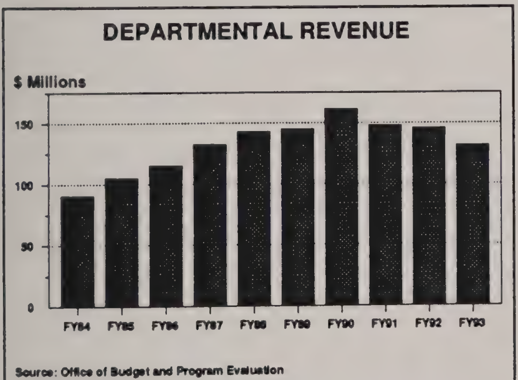

FIGURE 4

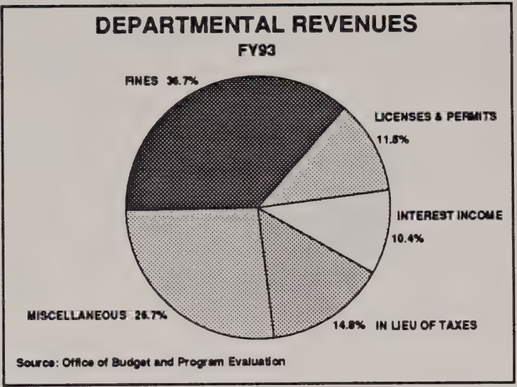

FIGURE 5

Many major revenue items increased during the 1980's but have fallen back in the last few years. Building permits increased dramatically from FY84 to FY88, but have decreased since FY88. Interest income increased dramatically from FY84 to FY89, but decreased in FY90 and FY91. Payments-in-lieu-of-taxes have remained stable while parking fine revenue has declined slightly. All these items are described in more detail below. Together these sources have averaged over 60 percent of departmental revenues in the last several budgets. (Figure 5.)

Parking Fine Revenues. In FY83, receipts more than doubled from the prior year as a result of transfer of parking enforcement authority from the district courts to the City. Between FY84 and FY88, parking fine receipts outpaced inflation. Major factors figuring in this growth included non-

renewal of violators' registrations and licenses by the state Registry of Motor Vehicles until penalties are paid, an increase in fines for public safety violations, increased booting, increased ability to get fine payments from rental agencies, and systematic collection of fines for company cars.

FY92 parking fine receipts are expected to come in close to the projection of $48 million that had been revised downward during the setting of the tax rate in December. This will represent a modest decrease from FY91, the first such decrease since the administrative transfer from the district courts occurred. The decrease is driven largely by a lower ticketing level which has occurred as the economic downturn has reduced the number of commuters, business travelers, and tourists coming into Boston. Consequently, parking lots are no longer as full and have actually lowered rates, perhaps attracting some would-be-scofflaws. The lower ticketing level during FY92 will directly impact collections during FY93. Consequently, the City is lowering its FY93 projection down to $46 million.

Investment Income. Interest rates have fallen dramatically with the Federal Funds rate dropping from just over 8 percent to under 4 percent in just a 15 month period between from October, 1990 to January, 1992. This has been partially due to a conscious effort by the Federal Reserve Board to revive the economy with lower interest rates. One consequence, however, has been that the City's investment income prospects have been dampened. The City realized dramatic improvement in the area of investment income from FY83 through FY86, paralleling the general overall improvement in the City's finances. Between FY87 and FY89 investment income averaged about $21 million per year. Since then, the City has been experiencing decreases. In FY90 and FY91 the City realized $16.9 million and $14.5 million. In general, the City's level of investment earnings is a function of the prevailing interest rates and daily cash balances. The average daily cash balances have been strained, on the one hand, by the budgeting of some of the City's reserve funds. On the other hand, a switchover to quarterly billing for the property tax and quarterly distribution for local aid — both beginning in FY92 — has had a positive impact. The City is unlikely to meet its forecast of $16.7 million for FY92, but a recent bond sale and the likely transfer into the General Fund of excess arbitrage reserves should minimize the shortfall. Interest income for FY93 is expected to continue to reflect the low interest rates, resulting in income of $13.7 million.

Payments-in-lieu-of-taxes. Receipts for payments-in-lieu-of-taxes over the last several years have been a stable source of revenue. Over 70 percent of this revenue comes from MassPort and the voluntary Section 6 payments from Chapter 121A urban redevelopment corporations. Because both MassPort and Section 6 payments are based on formulas which tie the payment to some measure of economic growth, these payments have experienced significant growth over the long-term, but less growth in recent years. In addition, in recent years many non-profit entities have entered into new payments-in-lieu-of-taxes agreements with the City. These include some of the major universities and hospitals located in Boston. Currently, the City expects to recognize a 25 percent increase in FY92 due to an additional one-time payment by the commercial portion of the Prudential Center to cover its last six months of 121A status prior to converting to normal property taxation. The FY93 projection of $19.4 million is slightly less than average compared to recent years because of the switchover by the Prudential Center.

Building Permits. The City experienced a substantial upswing in building permit revenue between FY82 and FY86. This upswing was related to a dramatic increase in the level of development which took place in Boston over that period. In addition, improvements in Inspectional Services Department administrative and monitoring procedures provided more vigilant oversight and more accurate estimates of building project costs.

Projections of building permit revenue are difficult, since the unpredictable timing of large-scale projects can result in dramatic swings upward or downward. Between FY86 and FY88, revenue from building permits continued to grow modestly.

Subsequently, the City has experienced a dramatic reversal of fortunes in this area: building permit revenue plummeted from $14.4 million in FY88 to $11.4 in FY89 to $8.1 million in FY90 to $6.7 million in FY91. This downward slide is not too surprising given the downswing in new development and renovation activity. For FY92, building permit revenues are expected to fall short of the $8.2 million projection. The City is projecting $7.7 million for FY93.

EXCISE TAXES

Motor Vehicle Excise. The motor vehicle excise tax underwent mandated Proposition 2 1/2 cutbacks similar to those in the property tax levy, resulting in a reduction in excise revenues of nearly 60 percent between FY80 and FY82. Beginning in FY83, motor vehicle excise exhibited steady growth and was the City's fastest growing recurring revenue source between FY84 and FY86. Part of the growth was due to an improved collection effort by the City for prior years' bills. Furthermore, during the mid-eighties the dramatic annual growth in Massachusetts in personal income increased the purchasing power of local consumers. The fall of 1986 was a particularly intensive period of high volume new car purchases due to the combination of low financing and the motivation to buy before federal tax reform changed the rules on interest deductions. Consequently, the City continued to experience solid growth through FY89, with the exception of FY88 when administrative problems at the Registry of Motor Vehicles slowed down the billing process.

In contrast, since FY89 growth in Motor Vehicle Excise receipts has disappeared as the City received $20 million and $18.9 million in FY90 and FY91, and expects to receive approximately $19.5 million in FY92. This is not surprising because car purchases have slowed down dramatically during the year-long recession and during extended periods both before and after the recession. Because the motor vehicle values upon which the 2.5 percent levy is applied are decreased annually based upon an aggressive depreciation schedule, it is not at all surprising for Boston and other municipalities to see a decline in this revenue item during a recession when few are buying new cars. Preliminary indications for FY92 are mixed. An aggressive effort to collect on prior year bills has begun to have an impact. But slight delay in the major Spring billing may push some of the payments from FY92 into FY93 and leave the City short of the $19.5 million FY92 projection. In FY93 receipts are projected to decline slightly to $19.0 million, once again reflecting on the downside the overall depreciating value of cars in Boston, and on the upside, a continuing aggressive effort to collect prior year bills.

Room-Occupancy Excise. In 1985, state legislation was enacted authorizing local option excise taxes on room-occupancy rates and jet fuel. These taxes were the first new revenue sources available to the City since the motor vehicle excise was enacted in 1928. The Commonwealth collects these taxes and distributes them to the City. In their start-up years (initiated in FY86; first complete year of collection in FY87), the jet fuel and room-occupancy excises provided needed revenue growth to the City. (Figure 6.)

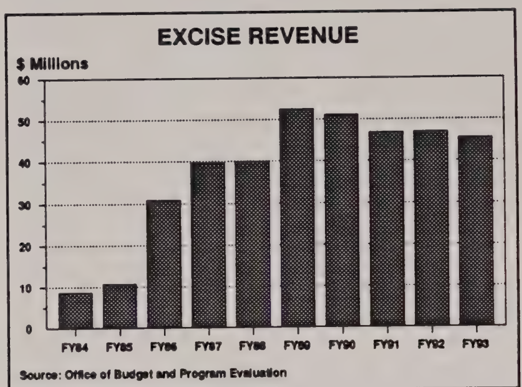

FIGURE 6

The room-occupancy excise amounts to 4 percent of the total amount of rent for each occupancy (in addition to the existing state-wide 5.7 percent excise). Room-occupancy excise receipts increased in FY88 and FY89 by 16.8 percent and 11.8 percent, respectively. More recently, growth has

slowed as Boston's occupancy and room rates have decreased slightly. These rates are partly dependent on tourism which has been lagging in the Boston area as consumers nation-wide have become more cautious with their discretionary spending. Another driving element in room and occupancy rates is spending by businesses on travel. As a more discretionary spending item, business travel inevitably slows down in a recession. As a result the City has projected a 5 percent decline in FY92, and a further 3 percent slippage in FY93.

Jet Fuel Excise. In addition to the room-occupancy excise, the legislature in 1985 enacted a local option excise on the sale of jet fuel at a rate of 5 percent of the average sales price, but not less than 5 cents per gallon. The City actually collected the greatest amount for this new excise in its first full year, FY87. The City currently expects to receive approximately the same amount in FY92 and FY93 as it received in FY91. One reason that the jet fuel excise has remained relatively flat year to year is that the 5 cents per gallon has generally been the operative rate, since the price per gallon has generally remained under one dollar. In other words, in jet fuel prices have no impact on excise collections so long as the price has remained under one dollar. As noted above, travel to the region has declined due to economic pressures, contributing to the stagnant results for both the jet fuel and room-occupancy excises.

Another major factor which limits jet fuel excise growth is the increased fuel efficiency of commercial aircraft which use Logan airport. Because fuel is such a major portion of their expenditures, airlines are strongly motivated to increase the fuel efficiency of their fleet. For example, the percentage of scheduled Logan passenger operations in "stage-3" aircraft increased from 23 percent to 41 percent between 1984 and 1988. This has had a significant impact upon the demand for fuel at the airport because the amount of fuel needed for the same unit of elapsed time between takeoff and landing is an estimated 36 percent less in a stage-3 aircraft as compared to its predecessor stage-2 model. (This variance uses as the example for stage-2 aircraft, the Boeing 727-200, and for stage-3, the Boeing 737-300.)

Real Estate Transfer Excise. The City had been receiving a real estate excise tax (commonly referred to as the condo excise) since FY83. Until FY90, these receipts were earmarked for the payment of the Funding Loan Act of 1982 bonds (commonly referred to as the Tregor bonds). During the peak of Boston's hot real estate market in the mid-1980's, over $2 million per year was realized via the real estate transfer tax. This was one reason Boston was able to retire the Tregor bonds early. Since the City completed payment on the bonds in FY90, the condo excise receipts have been deposited in the General Fund, but there have been diminishing returns. In FY91, the City only received $156,000. This is due to the fact that a significant portion of units in the City have already been converted to condominiums, and that conversions slow down in a sluggish real estate market. The FY92 budgeted amount of $142,000 and the FY93 amount of $80,000 are reflective of these facts.

BUDGETARY FUND BALANCE

The City accelerated its use of its budgetary fund balance as the Commonwealth dramatically cut back on local aid. By balancing expenditure reductions with drawing down of available reserves, the City has been able to protect basic services during the state's defunding of local aid. However, due to a number of factors, this option is not available for the City in the near-term.

Also referred to as "free cash," this item is most simply described as the portion of the available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending. The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Mass. General Law, and is administered by the Massachusetts Department of Revenue's Bureau of Accounts.

State law permits two ways of certifying free cash. The first method is to add accumulated surpluses

and subtract accounts receivable as of the last day of the fiscal year. Any resulting positive balance is generally available for appropriation during the subsequent fiscal year. The second method is to update the City's property tax receivables during the course of the year (up through March 31st). Outstanding prior year property tax billings collected during the current year are netted into an adjusted free cash balance, which if positive, is available for appropriation until June 30th.

The City had an operating deficit for ten straight years between FY76 and FY85. In all of those years the City also had a negative free cash balance. The City's fiscal turnaround was first fully confirmed with its first operating surplus in over a decade in FY86. The City has had small operating surpluses ever since. Beginning with FY86, the June 30th free cash balance was positive for five straight years, thereby freeing up funds for appropriation in the subsequent year budgets. The City appropriated from budgetary fund balance $4.0 million for FY87, $13.4 million for FY88, $15.0 million for FY89, $20 million for FY90, $38.6 million for FY91, and $10.9 million for FY92.

Several factors influenced the decision to make these appropriations of budgetary fund balance: 1) Fund equity had built up steadily over a long period of time, turning positive in FY83 and increasing every year through FY90; 2) A very high rate of collection on current year property taxes had been achieved and subsequently sustained over several years; 3) Boston had exceeded its revenue estimates from FY85 through FY90; 4) Personnel spending continued to be successfully controlled through a quarterly allotment system mandated by Mass. General Law; and 5) The City had reduced spending and personnel in many areas to adjust for significant cuts in local aid.

Due primarily to the necessity of using the maximum allowable amount of available fund balance in order to offset local aid reductions in FY90, FY91, and FY92, the City's June 30, 1991 free cash balance was negative for the first time since 1985. Other factors which also affected the negative free cash calculation were the small size of the FY91 operating surplus and a greater amount of properties being reclassified into tax title without a concomitant increase in receipts for tax title properties.

In FY91, fund equity reflected that year's record appropriation of free cash and decreased in comparison to the previous year for the first time since FY80. The City does not currently anticipate being able to appropriate additional funds from available fund balance in the near future.

NON-RECURRING REVENUE

Over the course of five budgets (FY84 - FY88), non-recurring revenues were used to offset both the City's final cut to the property tax levy under Proposition 2 1/2, and to relieve the City from a string of operating deficits going back to FY76. During that period, the five year combined total of prior year deficits (both operating and overlay), plus the FY84 levy reduction, equalled approximately $185 million. During that same five year cycle, the City supported its budgets with $166 million in non-recurring revenues. The four largest categories of non-recurring revenues were: 1) $40.8 million in FY86-FY88 from excess pension fund interest, a transfer allowed by a state law which fully phased out such use of excess interest as a budgetary offset from FY89 onward; 2) the sale of garages, which produced $40.7 million in FY84 and FY85; 3) $34.1 million in disproportionate assessment funds in FY84; and 4) $19.6 million in excess reserves for abatements in FY84. These four items constitute over four-fifths of the FY84-FY88 non-recurring total. The FY92 budget is the first time since then that the City is using non-recurring revenue to support the operating budget. Such use will increase in FY93. (Figure 7.)

The City's FY92 and FY93 revenue situation deserves some comparison with FY84 when the City used its greatest amount of non-recurring revenue. In FY84, a local aid increase helped to offset the declining property tax levy. In FY92, the reverse was true. In FY84, the increased local aid fell short by several million dollars of offsetting the last major Proposition 2 1/2 levy reduction. Similarly, in FY92 the increase in the property tax levy is not expected to fully offset the reduction in

local aid. The major difference between the two periods lies in the bottom line. Currently, the City expects a decline in recurring revenue in FY92 of $56.3 million and a further $14 million reduction in FY93. In FY84 recurring revenues increased by slightly less than $1 million. Thus, the major thrust of the FY84 non-recurring revenues was to eliminate a (potentially) non-recurring deficit, a $42 million carryover from the prior year. Currently, non-recurring revenues are temporarily filling a gap created by the economic slowdown and will become less necessary as state and municipal revenues resume a reasonable level of growth.

In FY84, the City leaned heavily on non-recurring revenue and by this means increased its total revenue by year-end from $844 million to $918 million, in order to support major increases in costs for, among other things, pensions and prior year deficits, and thereby attempted to minimize the current year deficit. Even with the use of $74 million in non-recurring revenue in FY84, the City actually carried a larger deficit into the next year. The significant improvement realized in FY85 came in the form of increases in both the property tax levy and state aid, in short a clear-cut renewal of the recurring revenue base.

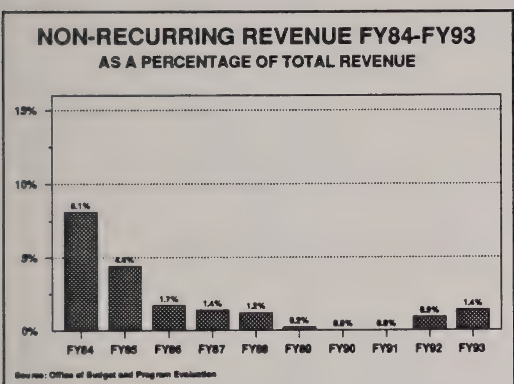

FIGURE 7

The Commonwealth's retreat from local aid has come at a point in time when the regional economy is weakest, and over time, the City's revenue base has become more sensitive to the economy. Thus, many local sources of revenue (new construction additions to the property tax levy, local option excise receipts, building permit receipts, and interest income, for example) have been decreasing.

The Administration's FY92 and FY93 budgets are supported by $12 million and $18 million in anticipated sale of property receipts. All of the FY93 amount and all but $2 million in FY92 will be proceeds from the sale of land related to the Central Artery project. As a matter of prudent fiscal policy, it is the Administration's proposal to spread the incorporation of Central Artery sale proceeds into General Fund revenue over several years in order to minimize any resulting structural gap between the City's recurring revenues and expenditures. The City is still in the process of finalizing the Central Artery sale, but expects that the above allocations for FY92 and FY93 will leave a reasonable amount of funds available for after FY93. It is believed that this limited form of non-recurring revenue, along with stringent spending reductions, will be sufficient to keep the City's budget in balance for the immediate future. However, use of non-recurring revenue must not be seen as a permanent alternative to resumption of sufficient local aid to meet the state's responsibilities to the City.

ACCT. #	ACCOUNT NAME	FY 1991 ACTUALS	FY 1992 BUDGET	FY 1993 BUDGET
	PROPERTY TAX			
	REAL & PERSONAL PROPERTY TAX	555,580,182	583,258,406	618,439,866
	OVERLAY RESERVE	(26,431,867)	(27,774,210)	(33,808,907)
	SUBTOTAL	529,148,315	555,484,196	584,630,959
	EXCISES			
	MOTOR VEHICLE EXCISE	18,845,546	19,500,000	19,000,000
011-0129	HOTEL/MOTEL EXCISE	14,655,940	13,900,000	13,500,000
011-0130	JET FUEL EXCISE	13,263,795	13,400,000	12,900,000
011-0140	CONDO EXCISE	156,000	142,000	80,000
	BOAT EXCISE	19,655	20,000	20,000
	SUBTOTAL	46,940,936	46,962,000	45,500,000
	CHAPTER 121A			
011-0167	URBAN REDEV. - CHAP 121A - SEC. 6	9,823,167	15,359,600	7,500,000
011-1013	URBAN REDEV. - CHAP 121A - SEC. 10	30,102,870	31,400,000	23,700,000
	SUBTOTAL	39,926,037	46,759,600	31,200,000
	FINES			
011-0501	PARKING FINES	49,894,298	48,000,000	46,000,000
	DISTRICT COURT FINES	2,357,369	1,914,000	1,887,000
011-5104	CODE ENFORCEMENT	329,739	250,000	220,000
	SUBTOTAL	52,581,406	50,164,000	48,107,000
	LICENSES & PERMITS			
011-0211	BUILDING STRUCTURES & PERMITS	6,689,379	8,250,000	7,700,000
011-0215	STREET & CURB PERMITS	1,564,594	1,300,000	1,300,000
011-0221	HEALTH INSPECTIONS	583,669	700,000	700,000
011-0222	ALCOHOLIC BEVERAGES LICENSES	2,147,466	2,150,000	2,100,000
011-0224	ENTERTAINMENT LICENSES	459,556	400,000	400,000
011-0225	POLICE & PROTECTIVE LIC & PRMTS	379,284	375,000	360,000
011-0229	OTHER BUSINESS LIC & PERMITS	689,380	700,000	700,000
011-0235	CABLE TELEVISION	645,271	710,000	1,550,000
	OTHER LICENSES AND PERMITS	333,694	345,000	335,000
	SUBTOTAL	13,492,293	14,930,000	15,145,000
011-7151	INTEREST ON INVESTMENTS	14,503,954	16,700,000	13,600,000
	PAYMENTS-IN-LIEU-OF-TAXES			
011-0169	MASSPORT-IN LIEU	6,017,739	6,150,000	6,300,000
	OTHER - IN LIEU	5,433,617	5,001,775	5,556,220
	SUBTOTAL	11,451,356	11,151,775	11,856,220

ACCT. #	ACCOUNT NAME		FY 1991 ACTUALS	FY 1992 BUDGET	FY 1993 BUDGET
	MISCELLANEOUS DEPT. INCOME				
011-3105	VITAL STATISTICS		828,624	840,000	820,000
011-3109	LIENS		458,350	450,000	500,000
011-3120	CITY CLERK-FEES		264,368	280,000	300,000
011-3202	POLICE SERVICES		550,854	500,000	550,000
011-3211	FIRE SERVICES		1,411,597	1,400,000	1,300,000
011-3301	PARKING FACILITIES		3,281,699	2,850,000	1,200,000
011-3311	STREET, WALK & CURB REPAIR		5,448,936	2,300,000	2,200,000
011-3999	RENT EQUITY SERVICES		0	500,000	1,140,000
011-4002	TUITION & TRANSPORT-SCHOOLS		422,095	550,000	600,000
011-7117	WORKER COMP. REIMBURSEMENT		2,175,063	1,100,000	1,450,000
011-7119	SETTLEMENTS		521,608	400,000	200,000
011-7131	PENSIONS & ANNUITIES		2,059,381	2,300,000	2,200,000
011-7132	FRINGE BENEFITS & INDIRECT		736,877	400,000	700,000
011-7155	PRIOR YEARS REIMBURSEMENTS		7,870,345	2,969,919	1,000,000
011-8000	PRIVATE DETAILS - 10% ADMIN		1,546,373	1,600,000	1,600,000
	OTHER MISC. DEPT. INCOME		3,890,608	2,055,480	2,267,680
		SUBTOTAL	31,466,778	20,495,399	18,027,680
	PENALTIES & INTEREST				
011-0133	PENALTIES & INT. PROPERTY TAX		1,231,717	1,200,000	1,200,000
011-0134	PENALTIES & INT. M/V TAXES		571,500	650,000	900,000
011-0136	PENALTIES & INT. TAX TITLES		3,018,066	2,700,000	2,700,000
		SUBTOTAL	4,821,283	4,550,000	4,800,000
	COUNTY				
011-5106	REGISTRY OF DEEDS FEES		1,408,544	1,400,000	1,400,000
011-5111	COURT HOUSE		0	800,000	180,472
	OTHER COUNTY REVENUE		99,687	85,000	95,000
		SUBTOTAL	1,508,231	2,285,000	1,675,472
011-2503	PARKING METERS		6,800,000	8,000,000	9,000,000
011-2502	CEMETERY TRUSTEE		999,999	1,800,000	1,418,076
	HEALTH & HOSPITALS				
011-3401	CITY HOSPITAL		145,142,348	152,200,000	148,000,000
011-3411	LONG ISLAND		16,505,629	3,000,000	0
011-3421	MATTAPAN		18,279,273	13,000,000	10,000,000
		SUBTOTAL	179,927,250	168,200,000	158,000,000

ACCT. #	ACCOUNT NAME	FY 1991 ACTUALS	FY 1992 BUDGET	FY 1993 BUDGET
	STATE DISTRIBUTIONS			
	R.E. ABATES, & ELDERLY EXEMPTS	1,580,176	1,584,699	1,468,371
011-1111	STATE LOTTERY	25,328,750	25,328,750	25,328,750
011-1112	HIGHWAYS LOCAL AID	0	1,516,244	758,122
011-1114	VETERANS SERVICES	563,323	1,198,320	1,530,513
	RESOLUTION AID	318,288,956	273,189,022	274,010,430
011-4103	PUBLIC LIBRARY AID	2,354,808	0	0
011-1119	RACING TAXES	0	0	300,000
011-1301	SCHOOL CONSTRUCTION AID	11,634,662	13,632,691	14,007,000
011-1311	TRANSPORTATION OF PUPILS	9,654,040	10,428,480	10,161,808
011-1316	TUITION FOR STATE WARDS	508,744	0	0
011-1308	RECREATIONAL PROGRAMS	30,332	0	0
	SUBTOTAL	369,943,791	326,878,206	327,564,994
011-1115	REIMBURSEMENT, TEACHERS' PENSIONS	25,968,898	26,410,734	27,200,000
011-2504	BUDGETARY FUND BALANCE	38,568,934	10,906,620	0
011-2500	SALE OF PROPERTY	0	12,000,000	18,000,000
	GRAND TOTAL	1,368,049,461	1,323,677,530	1,315,725,401

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SUMMARY BUDGET: FISCAL YEAR 1993

OVERVIEW

It is expected that FY93 will be the seventh year in a row that the budget will not be burdened with a prior year operating deficit. The City will enter FY93 having met future requirements for a reserve of 2.5 percent of prior year departmental appropriations. However, due to significant local aid reductions, the City finds it necessary for the second year in a row to use non-recurring revenue as a supporting element of the operating budget.

REVENUES

FY93 will be the first time that revenues are expected to decrease two years in a row. Total revenues are projected to decrease by 3.2 percent in FY92 and by 0.6 percent in FY93. In FY92 state cherry sheet distributions are projected to decrease by $43.1 million or approximately 11.6 percent, following a $37.5 million or 9.2 percent decrease in FY91. For FY93 the City has estimated approximately the same amount as FY92 in cherry sheet distributions. Meanwhile, the governor has proposed reintroducing early approval of most local aid distributions, with the fundamental exception of a proposed increase in education grant aid which will become part of the overall state budget debate. Consequently, local aid continues to be an uncertain element in the City's budget process. In recent years, major budget adjustments had to occur well after the beginning of the fiscal year in order to adjust for late-coming local aid reductions.

The property tax levy is currently projected at a 6.0 percent increase over FY92. Total excise revenues are projected to decrease by 2.6 percent in FY93. Health and Hospitals revenue is projected to decrease by 6.5 percent in FY92 and by another 6.1 percent in FY93, with the closing of Long Island Chronic Hospital a major factor in the decreases. Departmental income is projected to decrease by 1.4 percent in FY92, followed by a 9.9 percent decrease in FY93. A detailed explanation of the FY93 decrease can be found in the Revenue section of this volume.

Because the City maximized its use of budgetary fund balance as the state dramatically reduced local aid in FY90, FY91, and FY92, additional budgetary fund balance is not available for FY93, and it is unclear when such funds will become available again. Budgetary fund balance was a part of City revenues in all budgets from FY87 through FY92.

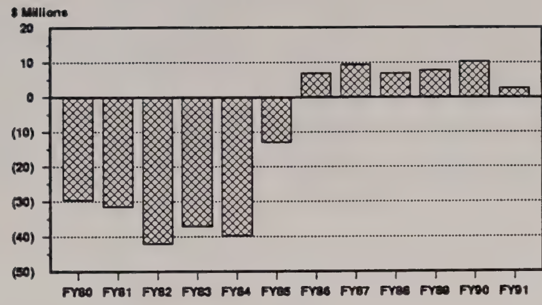
On the other hand, the City is proposing the use of a portion of the sale of property receipts from the Central Artery project in order to minimize service reductions in FY92 and FY93. It is the City's intent to minimize the use of such funds and to spread their use over several years.

EXPENDITURES

On the expenditure side, the City plans to spend 0.6 percent less in FY93, following a 3.1 percent decrease in FY92. Because fixed costs are expected to increase by $4.6 million, departmental expenditures will be reduced by 1.2 percent in order to maintain a balanced budget. In FY92 the City received approval for a pension funding schedule which eliminated the requirement to fund at the pay-as-you-go level through FY95 and which retires the unfunded pension liability seven years earlier than required under the state law. As a consequence of the new schedule, pension funding will have remained essentially level from FY90 through FY93. Debt service will remain level in FY92 and grow by 8.1 percent in FY93 as the City meets its obligations on recent borrowings in sup-

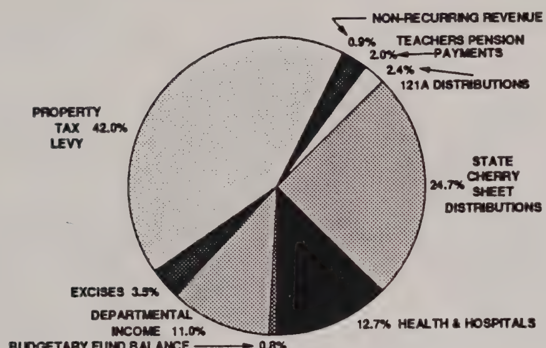
SURPLUSES AND DEFICITS

FY80 - FY91

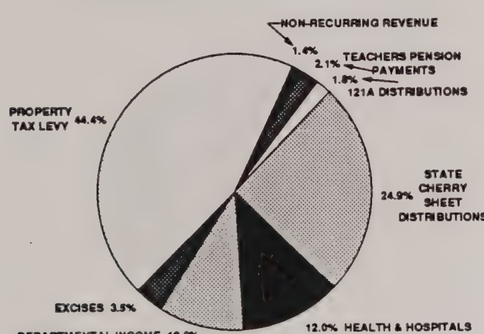


Source: City of Boston Auditing Department

ESTIMATED REVENUE FY92

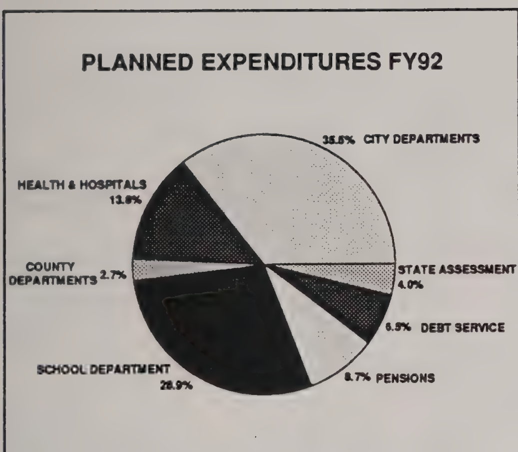


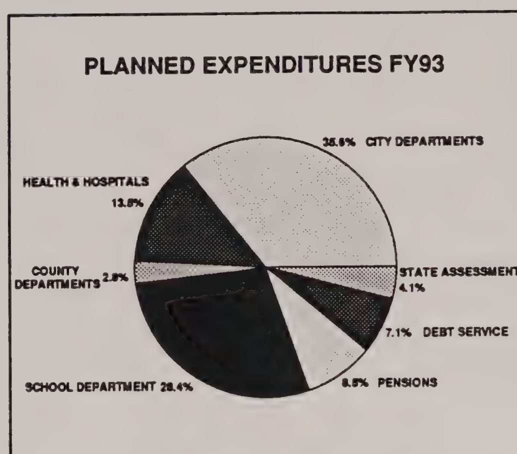
ESTIMATED REVENUE FY93



port of the five year capital plan. The City expects that no prior year operating deficit will need to be funded out of the FY93 budget. The City is setting aside an overlay reserve in the FY93 budget that exceeds the prior year's by 21.7 percent in order to safeguard against potential future overlay deficits.

In both the FY92 and the proposed FY93 budgets, all but County departments have reduced spending levels. In FY93, planned expenditures in Health and Hospitals decrease by 2.3 percent and in the School Department by 2.1 percent. The FY93 decrease in City department appropriations is only 0.3 percent due to the approximately $10 million in midyear FY92 reductions which were made to adjust local aid reductions which occurred after the beginning of the fiscal year. County departments' planned expenditures increase by 2.6 percent in FY93 due to the first full year of funding for the new Suffolk County House of Correction.





CITY OF BOSTON BUDGET SUMMARY

Dollars in Millions

REVENUES	FY 88 ACTUAL	FY 89 ACTUAL	FY90 ACTUAL	FY91 ACTUAL	FY92 BUDGET	FY93 BUDGET
PROPERTY TAX LEVY	452.4	484.3	520.9	555.6	583.26	618.44
OVERLAY RESERVE	(26.9)	(24.3)	(26.0)	(26.4)	(27.77)	(33.81)
MOTOR VEHICLE EXCISE	15.4	25.8	20.0	18.9	19.52	19.02
ROOM OCCUPANCY EXCISE	12.1	13.6	13.9	14.7	13.90	13.50
JET FUEL EXCISE	12.4	13.0	13.2	13.3	13.40	12.90
DEPARTMENTAL INCOME	142.7	144.8	161.3	147.6	145.58	131.21
HEALTH AND HOSPITALS	147.3	154.7	158.0	179.9	168.20	158.00
STATE AID DISTRIBUTIONS	384.4	408.1	407.4	369.9	326.88	327.56
121A DISTRIBUTIONS	32.3	32.5	33.0	30.1	31.40	23.70
TEACHERS PENSION PAYMENTS	22.3	22.2	23.0	26.0	26.41	27.20
REVENUE SHARING	0.6	0.0	0.0	0.0	0.00	0.00
BUDGETARY FUND BALANCE	13.4	15.0	20.0	38.6	10.91	0.00
TOTAL RECURRING REVENUE	1,208.6	1,289.8	1,344.6	1,368.0	1,311.68	1,297.73
NON-RECURRING REVENUE	14.7	2.0	0.0	0.0	12.00	18.00
TOTAL REVENUES	1,223.3	1,291.8	1,344.6	1,368.0	1,323.68	1,315.73
EXPENDITURES						
CITY DEPARTMENTS	436.4	467.7	495.3	497.3	470.03	468.84
HEALTH & HOSPITALS	157.2	179.4	186.8	194.4	182.08	177.80
COUNTY DEPARTMENTS	28.3	26.1	29.0	34.0	35.53	36.46
SCHOOL DEPARTMENT	318.6	355.4	374.4	389.0	382.00	374.00
TOTAL APPROPRIATIONS	940.5	1,028.7	1,085.6	1,114.6	1,069.64	1,057.10
PENSIONS	130.5	120.5	114.2	113.2	115.69	112.01
DEBT SERVICE	83.6	78.3	82.6	86.0	86.03	92.98
STATE ASSESSMENTS	46.3	48.3	50.3	51.3	52.32	53.63
RESERVE	4.5	3.9	0.7	0.3	0.00	0.00
TOTAL FIXED COSTS	264.9	251.1	247.8	250.9	254.04	258.62
TOTAL RECURRING EXPENDITURES	1,205.4	1,279.7	1,333.3	1,365.5	1,323.68	1,315.73
OPERATING DEFICIT-PRIOR YEAR	0.0	0.0	0.0	0.0	0.00	0.00
OVERLAY DEFICIT - PRIOR YEAR	11.1	4.2	1.0	0.0	0.00	0.00
PRIOR YEAR DEFICIT	11.1	4.2	1.0	0.0	0.00	0.00
TOTAL EXPENDITURES	1,216.5	1,284.0	1,334.3	1,365.5	1,323.68	1,315.73
SURPLUS (DEFICIT)	6.8	7.8	10.3	2.6	0.00	0.00

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CITY OF BOSTON
IN CITY COUNCIL

APPROPRIATION AND TAX ORDER FOR THE FISCAL YEAR COMMENCING JULY 1, 1992 AND ENDING JUNE 30, 1993

ORDERED:

I. That to meet the current expenses of the City of Boston and the County of Suffolk, in the fiscal year commencing July 1, 1992 and ending June 30, 1993, the respective sums of money specified in the schedules hereinafter set out, be, and the same hereby are, appropriated for expenditure under the direction of the respective boards and officers severally specified, for the several specific purposes hereinafter designated and, except for transfers lawfully made, for such purposes only — said appropriations, to the extent they are for the maintenance and operation of parking meters, and the regulation of parking and other activities incident thereto (which is hereby determined to be $9,000,000), being made out of the income from parking meters and, to the extent they are for other purposes, being made out of the proceeds from the sale of tax title possessions and receipts from tax title redemptions, in addition to the total real and personal property taxes of prior years collected from July 1, 1991 up to and including March 31, 1992, as certified by the City Auditor under Section 23 of Chapter 59 of the General Laws, and out of available funds on hand July 1, 1992, as certified by the Director of Accounts under said Section 23, and the balance of said appropriations to be raised by taxation pursuant to said Section 23:—

CITY DEPARTMENTS

Account	Department	Personal Services	Contractual Services	Supplies and Materials	Current Charges and Obligations	Equipment	Special Appropriation	Structures and Improvements	Land and Non Structural Improv to Land	TOTAL
011-140-0000	Administrative Services Department	9,491,749	1,254,187	297,780	66,009,687	35,350	116,725			77,205,478
011-136-0136	Assessing Department	3,931,490	265,100	57,000	371,410	5,000				4,630,000
011-131-0131	Auditing Department	1,241,155	61,300	9,220	4,700	1,275				1,317,650
011-401-0401	Boards and Commissions	684,850	45,244	14,300	3,700					748,094
011-415-0415	Business and Cultural Development, Office of	253,378	209,100	6,000	3,600		213,880			685,958
011-161-0161	City Clerk Department	485,636	35,164	14,500						535,300
011-112-0112	City Council	2,153,820	154,550	61,000	34,000	2,300				2,405,670
011-114-0114	Consumer Affairs and Licensing Office of	253,675	19,590	5,700	7,200					286,165
011-387-0387	Elderly, Commission on Affairs of	1,453,693	113,750	39,430	30,726					1,637,599
011-121-0000	Election Department	1,872,449	282,728	40,822	43,551	10,450				2,250,000
011-333-0333	Execution of Courts, Damage Claims and Reimbursements						6,000,000			6,000,000
011-403-0403	Fair Housing Commission	183,126	23,000	4,521	7,300					217,947
011-193-0193	Finance Commission	121,328	2,822	320	1,000					125,470
011-221-0221	Fire Department	78,745,000	1,958,000	1,752,500	708,000	108,000				83,271,500
011-610-0600	Health and Hospitals Department	105,034,990	43,054,940	14,847,030	2,676,120	67,790	12,119,130			177,800,000
011-261-0260	Inspectional Services Deptartment	6,950,786	727,440	87,100	533,104	5,000				8,303,430
011-151-0151	Law Department	2,161,120	849,800	37,800	34,695	70,235				3,153,650
011-110-0110	Library Department	13,237,680	2,531,200	2,306,120	400,000	25,000				18,500,000
011-252-0252	Licensing Board	382,635	29,770	8,750	3,345	500				425,000
011-175-0175	Management Fund		220,000							220,000
011-111-0111	Mayor, Office Expenses	762,342	56,158	8,000	3,500					830,000
011-139-0139	Medicare Payments						1,260,000			1,260,000
011-412-0412	Neighborhood Services, Office of	823,415	48,000	26,100	9,260					906,775
011-300-0301	Parks and Recreation Department	6,290,500	1,330,600	327,650	440,000	30,000	363,000		60,000	8,841,750
011-374-0374	Pensions and Annuities - City						8,000,000			8,000,000
011-211-0211	Police Department	111,492,276	5,512,400	4,463,166	3,407,971	464,229				125,340,042
011-411-0411	Press Office	129,686	6,600	300	1,914					138,500
011-188-0000	Public Facilities Department	5,202,600	1,399,969	245,300	286,700	15,700				7,150,269
011-188-0000	PFD/Community Schools	5,843,600	1,558,120	76,000	224,230	0	693,050			8,395,000
011-311-0311	Public Works Department	12,915,965	34,915,559	1,020,076	821,650	1,750		150,000		49,825,000
011-180-0000	Real Property Department	2,981,164	2,769,983	178,500	6,453					5,936,100
011-163-0163	Registry Division, City Clerk Department	599,640	10,000	4,000	1,595					615,235
011-384-0384	Rent Equity Board	1,044,300	67,260	25,440	3,000					1,140,000
011-192-0192	Retirement Board	1,076,634								1,076,634
011-115-0115	Safe Neighborhood	284,000	20,000	4,000	2,000					310,000
011-331-0331	Snow Removal						2,250,000			2,250,000
011-251-0250	Transportation Department	12,546,069	6,732,947	679,797	1,282,537	103,400				21,344,750
011-137-0000	Treasury Department	1,735,702	131,664	352,694	22,290	1,650	1,000			2,245,000
011-199-0199	Unemployment Compensation						50,000			50,000
011-740-0000	Veterans Services Department	667,350	120,580	6,600	1,706,015					2,500,545
011-341-0342	Workers Compensation Fund						2,250,000			2,250,000
011-448-0448	Youth Fund		500,000				3,250,000			3,750,000
	TOTAL CITY DEPARTMENTS	**393,033,803**	**107,017,525**	**27,007,516**	**79,091,253**	**947,629**	**36,566,785**	**150,000**	**60,000**	**643,874,511**

COUNTY DEPARTMENTS

Account	Department	Personal Services	Contractual Services	Supplies and Materials	Current Charges and Obligations	Equipment	Special Appropriation	Structures and Improvements	Land and Non Structural Improv to Land	TOTAL
011-140-0000	Administrative Services Department	193,000			2,900,000					3,093,000
014-139-0139	Medicare Payments						190,000			190,000
014-749-1375	Pensions and Annuities - County						650,000			650,000
014-745-0165	Registry of Deeds	1,390,300	77,700	28,720	3,280					1,500,000
014-747-0000	Suffolk County Sheriff's Department	22,020,766	5,204,953	3,072,905	150,705	75,671				30,525,000
011-341-0342	Workers Compensation Fund						500,000			500,000
	TOTAL/COUNTY	**23,604,066**	**5,282,653**	**3,101,625**	**3,053,985**	**75,671**	**1,340,000**			**36,458,000**

FURTHER ORDERED:

II. That to meet so much of the expenses of maintaining, improving and embellishing in the fiscal period commencing July 1, 1992 and ending June 30, 1993, cemeteries owned by the City of Boston, or in its charge, as is not met by the income of deposits for perpetual care on hand December 31, 1991, the respective sum of money specified in the subjoined schedule be, and the same hereby is, appropriated out of the fund set up under Chapter 13 of the Acts of 1961 — the same to be expended under the direction of the Commissioner of Parks and Recreation:—

015-400-3321
CEMETERY DIVISION
PARKS AND RECREATION DEPARTMENT

Personal Services	$1,139,576
Contractual Services	121,000
Supplies & Materials	66,200
Current Charges	76,000
Equipment	15,300
Total	$1,418,076

CITY OF BOSTON · MASSACHUSETTS

OFFICE OF THE MAYOR
RAYMOND L. FLYNN

April 8, 1992

TO THE CITY COUNCIL

Dear Councillors,

I transmit herewith an appropriation order in the amount of $374,000,000 for the Boston School Department for FY93, submitted pursuant to the provisions of Chapter 224 of the Acts of 1936, as most recently amended by Chapter 108 of the Acts of 1991.

This requested appropriation when combined with the $4.5 million in State Equal Education Opportunity Grant and Federal Impact Aid, will make available to the School Department $378.5 million for FY93 in direct operating funds. The School Department projects an additional $63.1 million in categorical grant funds, for a total operating budget of $441.6 million, a 1.7% reduction from last year. In addition, the City's FY93 Capital Plan outlines $187 million in school investment, a $22 million increase over last year's Plan.

Unlike prior years, I have received this year a School Department budget within appropriation. The School Committee, working with Superintendent Harrison-Jones, recognized the critical fiscal situation that the City faces and produced both a fiscally accountable and educationally sound budget. The School Committee and the Superintendent developed a budget which moves to eliminate the waste and inefficiencies within the School Department and which directs essential funds toward the most important element within the budget - classroom services.

Despite a reduction in total direct operating funds, chiefly due to cuts in local aid, the School Committee and Superintendent were able to increase instructional resources from 64.5% of the current budget to 67.3% in FY93, maintain low pupil teacher ratios with class size averages of between

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20 - 24, increase the number of high school and bilingual teachers, and increase the instructional supplies budget by over $1 million in the city-funded budget, while reducing both administration and transportation costs.

I respectfully recommend approval of this appropriation for the Boston School Department for FY93.

Sincerely,

Raymond L. Flynn

Raymond L. Flynn
Mayor of Boston

CITY OF BOSTON
IN CITY COUNCIL

ORDERED:

That pursuant to Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, and as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987, and Chapter 108 of the Acts of 1991, to meet the current operating expenses of the School Department in the fiscal period commencing July 1, 1992 and ending June 30, 1993, the sum of THREE HUNDRED SEVENTY-FOUR MILLION DOLLARS ($374,000,000) be, and the same hereby is, appropriated, said sum to be raised by taxation pursuant to Section 23 of Chapter 59 of the General Laws: —

School Department	$374,000,000

TWO YEAR COMPARISON OF CITY DEPARTMENTS

Department/Division	FY92 Budget	FY93 Recommended	Variance
Administrative Services Department	74,225,071	77,205,478	2,980,407
Assessing Department	4,850,000	4,630,000	(220,000)
Auditing Department	1,387,000	1,317,650	(69,350)
Boards and Commissions, Office of	787,467	748,094	(39,373)
Business and Cultural Development, Office of	773,034	685,958	(87,076)
Cemetery Division	1,800,000	1,418,076	(381,924)
City Clerk Department	564,000	535,300	(28,700)
City Council	2,406,100	2,405,670	(430)
Consumer Affairs/Licensing Division	298,805	286,165	(12,640)
Elderly Commission	1,721,946	1,637,599	(84,347)
Election Department	2,650,000	2,250,000	(400,000)
Execution of Courts	5,000,000	6,000,000	1,000,000
Fair Housing Commission	229,418	217,947	(11,471)
Finance Commission	127,600	125,470	(2,130)
Fire Department	83,550,000	83,271,500	(278,500)
Health and Hospitals Department	182,078,010	177,800,000	(4,278,010)
Inspectional Services Department	8,539,000	8,303,430	(235,570)
Law Department	3,267,000	3,153,650	(113,350)
Library Department	18,690,000	18,500,000	(190,000)
Licensing Board	426,300	425,000	(1,300)
Management Fund	0	220,000	220,000
Mayor, Office Expenses	908,199	830,000	(78,199)
Medicare Payments	1,260,000	1,260,000	0
Neighborhood Services, Office of	954,500	906,775	(47,725)
Parks and Recreation Department	9,560,000	8,841,750	(718,250)
Pensions and Annuities - City	7,410,000	8,000,000	590,000
Police Department	124,433,000	125,340,042	907,042
Policy Office	320,000	0	(320,000)
Press Office	145,800	138,500	(7,300)
Public Facilties Department	7,332,800	7,150,269	(182,531)
PFD - Community Centers	8,739,000	8,395,000	(344,000)
Public Works Department	51,735,000	49,825,000	(1,910,000)
Real Property Department	6,140,000	5,936,100	(203,900)
Registry Division, City Clerk Department	646,300	615,235	(31,065)
Rent Equity Board	1,330,848	1,140,000	(190,848)
Retirement Board	1,129,615	1,076,634	(52,981)
Safe Neighborhoods, Office of	0	310,000	310,000
Snow Removal	2,250,000	2,250,000	0
Transportation Department	22,060,000	21,344,750	(715,250)
Treasury Department	2,373,080	2,245,000	(128,080)
Unemployment Compensation Fund	50,000	50,000	0
Veterans Services Department	2,531,100	2,500,545	(30,555)
Workers Compensation Fund	1,850,000	2,250,000	400,000
Youth Fund	4,275,000	3,750,000	(525,000)
TOTAL CITY DEPARTMENTS	**650,804,993**	**645,292,587**	**(5,512,406)**

TWO YEAR COMPARISON OF COUNTY DEPARTMENTS

Department/Division	FY92 Budget	FY93 Recommended	Variance
Administrative Services Department	2,222,400	3,093,000	870,600
Medicare Payments	190,000	190,000	0
Pensions and Annuities- County	650,000	650,000	0
Registry of Deeds	1,546,000	1,500,000	(46,000)
Suffolk County Sheriff's Department	30,525,000	30,525,000	0
Workers Compensation Fund	400,000	500,000	100,000
TOTAL COUNTY DEPARTMENTS	**35,533,400**	**36,458,000**	**924,600**

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BOSTON'S PROGRAM BUDGETING AND PROGRAM EVALUATION SYSTEM

In late 1985, Mayor Flynn brought together a group of volunteers from the business and academic communities to take an in-depth look at the operation of eighteen key City departments. The group, known as the Mayor's Management Review Committee (MMRC), reviewed goal setting and performance review mechanisms and assessed the performance of these agencies, especially in terms of the delivery of basic City services. The MMRC produced a report containing almost 150 recommendations, detailing specific improvements that would help to make City services more efficient and effective.

One series of recommendations dealt with the need to establish goals for City departments, define those goals in terms of meaningful program objectives and criteria, and monitor department performance in order to develop a clear link between dollars spent and program performance. The MMRC report also recommended creation of a Mayor's Policy Office. As set forth in the recommendation, the Policy Director would be responsible for developing department goals and priorities with each agency prior to the development of the agency's next fiscal year budget.

The Mayor reviewed and accepted these recommendations, and in 1986 created both the Mayor's Policy Office and the Office of Budget and Program Evaluation (OBPE). These new offices were charged with the responsibility of further refining and implementing the recommendations contained in the MMRC report with respect to goal setting, budgeting, and evaluating program performance. Beginning in FY93 the responsibility for formal incorporation of Mayoral priorities within the budget process will rest directly in the Mayor's Office.

OFFICE OF BUDGET AND PROGRAM EVALUATION: MISSION AND GOALS

The Office of Budget and Program Evaluation, created by merging the former Administrative and Budget Divisions of the Administrative Services Department, has six ongoing goals.

- To refine City-wide program budgeting, to manage a comprehensive City-wide program evaluation system, and to ensure effective linkage between these systems.
- To maintain a cooperative and effective working relationship with the Mayor's Office to ensure close linkage with the Mayor's Office's goal setting process.
- To continue and improve upon necessary budget expenditure controls.
- To continue and improve upon revenue monitoring and revenue enhancement efforts.
- To provide staff support and advice to the Mayor and key Mayoral advisors on an issue-by-issue basis.
- To enhance OBPE's professional standards, recruit and retain top quality professional employees, and meet affirmative action goals.

THE EVOLUTION OF PROGRAM BUDGETING AND EVALUATION

In late 1986, the new OBPE determined that fully implementing a rigorous program budgeting and

evaluation system would require three years. This was because:

- A considerable amount of training and discussion would need to take place at the departmental level to help City managers to think of programs as distinct management units and to develop and accept program performance measures.
- The accounting and budgeting systems needed to be modified to reflect program-based budgeting.
- Baseline performance data had to be established so that comparisons between past and promised service levels would be possible.

Successive City of Boston budgets reflected consistent progress toward that three year objective.

- FY88 Operating Budget — OBPE developed an expanded four volume Operating Budget with funding allocated by program and including an initial set of performance measures for each program.
- FY89 Operating Budget — New features included authorizing statutes and ordinances and an organization chart for each department; reformatted program information (objectives, criteria, and service levels) to parallel OBPE's quarterly Program Progress Reports; improved performance measures; and a fifth volume on external funds utilized by City departments.
- FY90 Operating Budget — Improvements include performance measures reflecting actual experience; an expanded Volume V with more complete external funds information; and a direct relationship between performance measures and Policy Office goals.
- FY91 Operating Budget reflected the City's fully implemented program budgeting and evaluation system. Refinements included further fine-tuning of performance measures to reflect actual experience and ordered to reflect priorities; and an expanded Volume V with more complete external funds information.

The FY92 Operating Budget maintained the same format as in FY91, allowing a direct comparison of historical performance. This stabilization in the program budgeting and evaluation system helped to clearly illustrate the reductions in services planned in order to deal with the anticipated cuts in revenues.

The Proposed FY93 Budget has streamlined the measurement of performance by eliminating many measures which were non-outcome specific. Additional information has been added to Program Mission statements to explain the level of need or demand for the services — giving the reader additional context with which to evaluate the proposed levels of service.

IMPROVED MONITORING OF PERFORMANCE, EXPENDITURES, AND REVENUES

In the same way that the budget document has evolved over the past four years, the sophistication of OBPE's monitoring and management of the City's resources has also developed. During FY88 a monitoring system was developed, based on monthly reports from each department, on progress toward promised performance. Information from this system becomes the basis of OBPE's periodic reports on City-wide progress toward performance goals, the first of which was issued in December, 1987.

In the fall of 1987, OBPE also began to independently assess the information received from departments on these monthly reports. These assessments, called criteria reviews, provide a measure of confidence in the information published in various City-wide formats because they evaluate the systems used to collect the performance data, and reach independent conclusions about the accuracy of the reported service levels. These criteria reviews were included in the FY88, FY89, and FY90 Mayor's Management Reports.

In the fall of 1988, OBPE published its first annual Mayor's Management Report which described the

major activities of each department and analyzed departmental performance for FY88. In addition to charts showing each department's achievement of its "promised" service levels, the Management Report highlighted multi-year trends in both workload and the quality of services provided.

The FY89 Mayor's Management Report expanded upon the earlier report. Each Department's performance was evaluated not only in terms of planned versus actual service levels, but also in comparison to FY88 levels. This comparison was graphically illustrated. Overall performance achievements and areas needing improvement were compiled and reported in summary fashion. An entire appendix of criteria reviews was published as well.

The FY90 Mayor's Management Report signified the culmination of the three year process to implement program budgeting and evaluation. The Management Report continued the historical comparisons of program performance and highlighted the achievements in Mayoral priority areas realized despite the worsening fiscal situation in the state. Formal reporting on each department's performance regarding key City-wide management goals (managing attendance, controlling days lost due to injury, and timely processing of vendor payments) was also instituted.

The FY91 Mayor's Management Report expanded reporting on departmental services, including many services for which measures of performance had not been developed. For the first time, historical Selected Service Indicators, showing personnel, expenditures, and significant service measures, were presented in one chart by department.

Increasing attention has also been paid to refining program budgets, expenditure monitoring, and revenue analysis.

The initial allocation of costs by program in FY88 has been refined, particularly with respect to various overhead costs and lease expenses. The distribution of these monthly expenses, as well as the distribution of weekly personnel costs, has been automated.

OBPE has also undertaken special projects to better manage expenditures City-wide and to improve fiscal controls. In particular, the Office monitors overtime expenditures, and with the Office of Personnel Management, controls the hiring of emergency employees.

To reduce costs in FY90, OBPE enforced tough restrictions on out-of-state travel, equipment purchases, and various incidental expenditures. The City automobile policy was reviewed and revised, resulting in the establishment of a motor pool and reductions in the number of non-public safety City passenger vehicles. Further cost controls were enacted which required clearer justification for personnel transactions.

Finally, OBPE has become actively involved in a range of issues related to the City's fixed costs in order to better project both revenues and expenditures affected by these issues. OBPE has, for example, regularly monitored pensions issues, especially as they relate to the state's Pension Reform Act of 1987, and debt service matters. These areas make up more than 80 percent of the City's fixed expenditures. OBPE has also undertaken in-depth studies of major expenditure items, such as employee health benefits.

Improved revenue monitoring has been achieved in several ways. OBPE researches and analyzes all relevant data in attempting to produce accurate revenue projections on which to base the next year's budget. In addition, OBPE carries out, on a monthly basis, a detailed review of revenues received, as compared with revenues projected, in order to maintain a complete picture of the City's current fiscal situation on a day-to-day basis. The Office also extensively monitors Commonwealth activity that affects both City revenues and expenditures.

THE PROGRAM BUDGET CYCLE

Experience since late 1986 has defined the annual cycle for Boston's program budgeting and evaluation system. Program budgeting and evaluation is an iterative process which builds on commitments, performance, and improved management systems

in the previous years. The elements in this process are described below in the sequence in which they occur in the program budgeting calendar for the following fiscal year.

GOAL SETTING (November and December) The city institutes its annual goal setting process in the late fall. As described in Section 7 ("Goal Setting for the City of Boston"), this process reviews accomplishments in the past year, reviews performance toward current objectives, and defines major Administration goals for the coming year. Each goal is accompanied by performance measures and a list of milestone dates by which progress can be monitored. This goal-setting provides important policy direction to the budgetary decisions that follow.

BUDGET PREPARATION (November-April) Budget preparation begins simultaneously with the Goals process but extends long enough to incorporate the results of that process. Budget preparation first involves a detailed analysis by each City department of its need for funds and personnel to carry out its mandate in the fiscal year beginning the following July. In addition, departmental staffs review current performance levels, planned improvements or necessary reductions in services, to establish performance standards that will ensure careful management of ongoing activities. All departmental budget requests are due to be submitted to OBPE by mid-January.

In light of the severe constraints on City resources caused by the state's continuing fiscal crisis and its impact on local aid revenues, the budget process followed for the last three fiscal years was somewhat revised. Each department was asked to prepare a proposed budget that (1) reflects maintenance of current levels of service, (2) indicates how a "target" funding amount would be spent and how services would be affected, and (3) identifies new services that might be provided with increased funding. Nearly all City departments received "target" funding levels lower than prior year appropriations as a basis for their target budget submissions.

OBPE analyzes each departmental budget request. This analysis includes a review of the accuracy of expense projections and defines maintenance, expansion, and reduction budgets, and corresponding service levels. At the same time, OBPE is projecting anticipated revenues for the coming fiscal year based on the extensive monitoring of current revenue streams, state and federal legislative initiatives, and changes in the national, state, and local economy.

Once revenue projections are refined and the full scope of departmental plans are identified, a proposed budget is prepared. Funding decisions are a function of total available revenues, Mayoral priorities, and prior years' performance. The Mayor's Operating Budget includes not only recommended appropriations for each City agency, but also commitments as to levels of service to be accomplished with this funding. By statute, the recommended budget is submitted to City Council on the second Wednesday in April.

BUDGET APPROVAL (April-June) The City Council reviews and approves the Mayor's recommended budget. The Council has the authority to decrease or reject individual elements within the proposed budget, but may not authorize increased appropriations. (The School Department budget follows a somewhat different schedule and review process.)

IMPLEMENTATION (July 1-June 30) City departments use the funds and personnel approved in the adopted budget to carry out the activities and provide the services outlined in the budget. The departments prepare a spending management plan outlining quarterly costs.

REPORTING AND ANALYSIS (July 1-June 30) City departments report regularly on progress toward annual goals and promised service levels. The Mayor's Office monitors City-wide progress toward Mayoral goals. OBPE monitors and analyzes service level per-

formance and expenditure of appropriated funds through variance analyses, program progress reports, and criteria reviews. This monitoring provides key City managers with ready access to both overall and specific departmental performance; this information is then incorporated into the next annual budgeting cycle.

SUMMARY

The submission of the FY93 Operating Budget reflects the sixth year of "implementing" program budgeting and evaluation. It also represents the third consecutive year of utilizing this system in the process of deciding on cutbacks based on scarce City revenues. While such decisions are difficult ones, the program budget format provides a much clearer picture of the impacts, consequences, and priorities presented in this Proposed FY93 Budget.

GOAL SETTING FOR THE CITY OF BOSTON

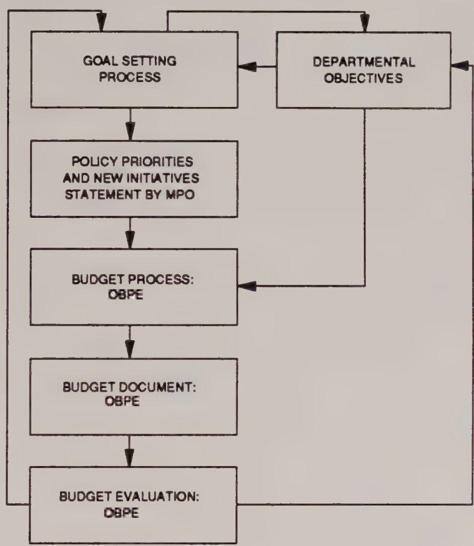
The Mayor's Policy Office(MPO), as recommended by the 1986 Mayor's Management Review Committee, is responsible for conducting an annual City-wide Goal Setting process. In consultation with the Policy Office, each department in the City develops policy prior to the formulation of its fiscal year budget.

The goal-setting process facilitates more effective strategic planning and interdepartmental coordination within the City. It also opens clear lines of communication between departments and the Mayor's Office and provides department heads with direct input into the policy making process of the City. The goals set in this process then shape meaningful objectives and performance criteria for the program budgeting and program evaluation performed by the Office of Budget and Program Evaluation. It is particularly important in a year when resources are limited that funding is directed toward Mayoral priorities. As such, special focus is given to goals which control costs while achieving the objectives. Emphasis is given to goals which are central to the mission of each department.

How The Goals Setting Process Fits Into The Budget Process

The goals process produces a set of criteria and specific objectives which guide the annual work plan of each City department. The work plans directly reflect Mayoral priorities and provide a mechanism for converting policy priorities into clear and attainable programmatic objectives.

HOW THE GOAL SETTING PROCESS FITS INTO THE BUDGET PROCESS



In its sixth year of goal setting, the Policy Office has continued a City-wide goals process which is effectively incorporated into the budget process. Each goal has associated measures of performance which are included in the FY93 budget. Through increased cooperation with the Office of Budget and Program Evaluation, the Policy Office's goal-setting process effectively links Mayoral priorities and departmental objectives to funding decisions.

How The Goals Process Works

Goal setting for FY93 began in the late fall of 1991 in coordination with the budget process. The goals process includes the following steps:

- Policy Office staff holds preliminary meetings with the Office of Budget and Program Evaluation to finalize procedures which link the goals process with the budget process. This includes issuing joint instructions, offering joint training sessions and frequent formal and informal exchanges of information;
- Department heads submit proposed goals for FY93 to the Policy Office;
- Policy Office staff meets with each department head to discuss FY93 goals and progress on FY92 goals;
- Based upon these discussions, the Policy Office produces a set of goals and performance measures for each department, and a matrix of interdepartmental goals;
- Department heads review and approve their departmental goals, and agree upon the level of involvement and assistance to be provided for interdepartmental goals;
- The Office of Budget and Program Evaluation reviews the departmental goals with respect to their overall fiscal impact on the City budget and incorporates agreed upon performance measures into the program budgets;
- The Policy Office monitors progress toward these goals throughout the year;
- The Policy Office also organizes committees to address key interdepartmental policy initiatives and monitor progress on these initiatives throughout the year.

Accomplishments Of This Year's Goals Process

In its sixth year of goal setting, the following successes are evident:

- A clear link exists between the primary purpose of each department and its FY93 goal(s);
- Budget reduction decisions have been shaped by clear Policy Office direction on Mayoral priorities;
- A focus has been placed on cost control as part of achieving Mayoral goals;
- A more responsive relationship has evolved between the Mayor's Office and City departments;
- Departmental goals are linked directly to Mayoral priorities and to the programmatic performance measures included in the budget document;
- The goals process has improved the program evaluation process and selection and definition of the performance measures contained in the FY93 budget document;
- Interdepartmental working committees are coordinating efforts to address overlapping areas of responsibilities;
- A coordinated monitoring system has been formed to evaluate progress toward the key goals established by department heads; and
- Key City-wide management goals have been highlighted.

In FY93, the Policy Office will continue to work closely with the Office of Budget and Program Evaluation to build upon these accomplishments. The goals process will continue to drive strategic City planning, coordinated City management, and more effective program budgeting.

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CAPITAL PLANNING FOR BOSTON

History and Overview

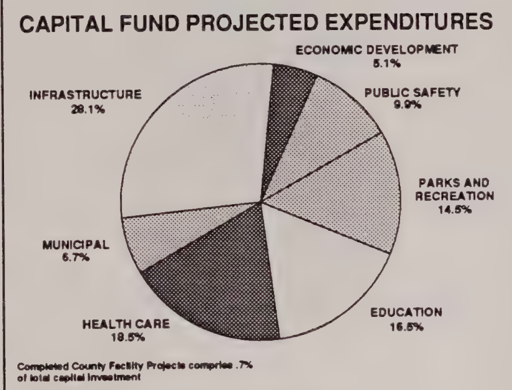
In July 1984, Mayor Flynn created the Office of Capital Planning (OCP). This Office was responsible for the preparation of an annual multi-year capital plan, oversight of capital expenditures, and the monitoring of capital construction and equipment acquisition. In FY93, the Office will be formally consolidated within the Public Facilities Department as the Capital Planning Program (CCP).

In 1984, reform of the City's capital planning procedures was long overdue. It had been almost 23 years since the City produced a comprehensive multi-year capital plan. The absence of such a document to guide project selection and financial planning had resulted in under-investment in certain portions of the City's capital stock, in particular its municipal buildings. Moreover, the fragmentation of capital projects among some 15 City agencies was inefficient and impeded long-range financial planning.

As Boston emerged from a three-year moratorium on capital investment following the passage of Proposition 2 1/2, the backlog of City capital needs, coupled with federal budget cuts and limitations on municipal revenues, made it imperative that future capital decisions be made within the context of a multi-year plan.

The major responsibilities of the Capital Planning Program are:

- Maintaining a comprehensive inventory of current and future capital projects;
- Establishing procedures for the preparation of capital budgets including a standardized budget format and data collection system for all City departments;
- Coordinating the preparation of loan orders;
- Analyzing the impact of proposed state and federal funding plans on Boston's capital projects;
- Involving neighborhoods in the planning and implementation of Boston's capital program; and
- Coordinating the operational impacts of capital budgets with the Office of Budget and Program Evaluation (OBPE).



Since July 1984, CCP has established the organizational systems necessary for the preparation and oversight of multi-year capital plans and budgets. To date, seven annual capital budgets have been developed within the framework of five year planning horizons. The most recent, *Rebuilding Boston*, released in February, 1992 presented plans for

over $1.3 billion of capital investment. Already, close to $340 million of this plan has been appropriated by the City Council.

Supporting these spending plans is a set of internal accounting, budget, and reporting systems. These systems monitor over 550 capital accounts and 650 commitments annually.

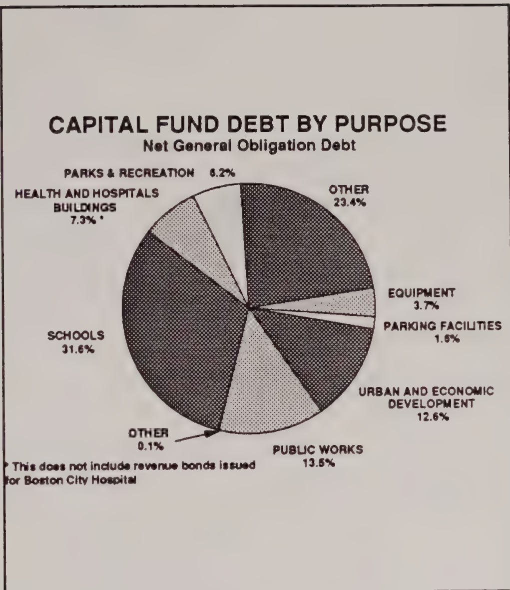
Working with the Auditing and Treasury Departments, CCP redesigned the City's Capital Fund to account centrally for all capital revenue including bonds, grants, and private funds. Written procedures and budget manuals have been developed and distributed to City agencies involved with capital construction.

In addition to its capital budget management, CCP functions as coordinator and mayoral advisor on matters of capital policy and research. In this capacity, CCP has prepared the City's open space plan entitled *Boston's Open Space*, chaired the Unified Facilities Planners Committee which prepared a ten year plan for the rehabilitation of Boston public schools, and worked with a number of City and state representatives to secure passage of legislation to fund new construction of Suffolk County Jail and House of Correction facilities.

Finally, the communication of the Administration's capital policy and projects has been a priority. More than 4,800 capital plans and 1,000 open space plans have been produced, and presentations have been made to over 100 neighborhood and business groups. In addition, close to 200,000 neighborhood profiles focusing on local capital projects were distributed across the City.

In its February 1986 report, the Mayor's Management Review Committee recommended that CCP "should be required to inform the new Office of Budget and Program Evaluation....of the projected operating budget impact of each year's capital budget." This recommendation has been incorporated into both the operating and capital budgets using several mechanisms.

First, a Capital Improvement Program Operating Impact Form was jointly developed by CCP and OBPE. The form is used to estimate the future operational costs of proposed capital projects. Second, CCP and OBPE coordinate the operating and capital budget process by examining the cost of debt service as part of the overall and continuing operating budget expenditures. During the course of the year, CCP, OBPE, and other City financial officials work closely with the City's Collector-Treasurer to determine the necessity, type, and amount of debt needed to be issued to satisfy the funding requirements of capital projects.



External Funds Coordination

OBPE and CCP are currently developing a control mechanism to examine the fiscal impact of both operating and capital grant monies flowing into the City. Until recently, no management information system existed to capture costs associated with grant applications, including matching funds and fringe costs. As a result, departments occasionally received legal authorization to spend grant funds without fiscal assessment of the impact on the capi-

tal or operating budgets. OBPE is now working with CCP and other City financial officials to ensure that this policy is expanded to cover all external funds, both operating and capital.

FY92-FY96 Capital Plan

The current capital plan calls for expenditures of $1.13 billion from FY92-FY96. These expenditures are aggregated in the priority areas set forth by the Mayor: education, public safety, health care, infrastructure, and parks. Expenditures are planned for the following priorities.

Program	Expenditures ($M)	Percent
Public Safety	$ 112.3	9.9%
Health Care	$ 209.8	18.5%
Education	$ 187.1	16.5%
Parks & Rec. Facilities	$ 164.4	14.5%
Infrastructure	$ 318.7	28.1%
Economic Development	$ 57.8	5.1%
Municipal	$ 76.0	6.7%
Total Current Projects	$1,126.2	99.3%
Completed County Projects	$ 7.9	.7%
Total Capital Investment	$1,134.1	100.0%

During the past seven years, more than 850 projects have been launched with over half already completed or in construction. Completed projects range from reopened police stations and recreational facilities, to roof replacements, street repairs, and renovated health facilities and school buildings. Projects in the design or construction stage include a series of repair and reconstruction projects for the schools totalling $145 million, as well as new inpatient facilities for Boston City Hospital, the single largest capital project in the City's history, totalling over $153 million.

The $1.13 billion of capital expenditures will be supported by revenues from general obligation (GO) and revenue bonds, state and federal funds, trust funds, and private sector contributions. During the past six years, the City has successfully sold $409.1 million of GO bonds to support the capital plan. Boston's success in the capital markets reflects investors' growing confidence in the City's financial condition. Once again, the City was rewarded for its fiscal management as the two premier credit rating agencies reaffirmed the City's "A" credit rating.

Revenues are proposed from the following sources:

Source	Percent
General Obligations Bonds	64.6%
Revenue Bonds	13.5%
Federal Revenues	7.2%
State Revenues	9.9%
Other Funds	4.2%
Trust	0.6%
TOTALS	100.0%

The current capital budget projects the need for an additional $265 million of GO bonds over the next five years. The amount to be borrowed in any one year will be determined by a variety of factors — cash need, market conditions, and constraints imposed by the 1986 Federal Tax Reform Act.

Capital Planning Statistics

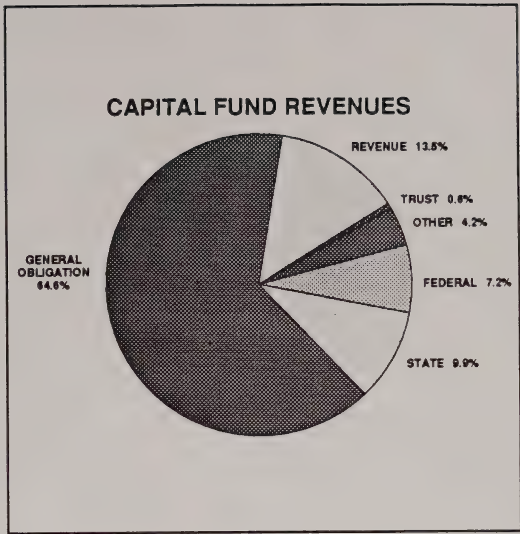
- Expenditures FY92 - FY96: $1.13B
- Net Debt Outstanding 6/30/91: $538.5M
- Current Bond Rating: A
- Net Debt/Assessed Value: 1.45%

Approval by the U.S. Department of Health and Human Services (HHS) for a mortgage guarantee through the Federal Housing Administration (FHA) Department of Housing and Urban Development (HUD) was received. Revenue bonds were sold to support the City's largest capital project, the construction of new inpatient facilities at Boston City Hospital. Federal insurance on bonds will enhance their credit worthiness and result in substantial reduction in the cost of the project.

Summary

The effort to coordinate capital and operating budget and planning priorities is one of many initiatives designed to improve the City's financial management and service delivery. The assessment of City debt service requirements, and the establishment of a procedure to identify operating costs associated with the undertaking of a capital and operating grant application, are control mechanisms that enhance the City's ability to operate effectively and ensure that Boston's sound financial management continues.

Sources: *Rebuilding Boston: A Five-Year Capital Plan.* February, 1991; *Rebuilding Boston: A Five-Year Capital Plan.* March, 1990; *Rebuilding Boston: A Five-Year Capital Plan.* Vol. 2. January, 1989; *Rebuilding Boston: A Five-Year Capital Plan.* September, 1987; *Investing in Boston's Future: A Five-Year Capital Plan.* September, 1985.



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FINANCIAL MANAGEMENT OF THE CITY

RESPONSIBLE OFFICIALS AND AGENCIES

Boston's financial operations are ultimately directed by the Mayor. The Mayor is the chief executive officer of the City and has general supervision of and control over the boards, commissions, officers, and departments of the City. The Director of the Administrative Services Department is the City's chief operating officer. City budget appropriations for all departments and operations of the City and Suffolk County, except the School Department and the county courts, are prepared by the Office of Budget and Program Evaluation (OBPE), a part of the Administrative Services Department, under the direction of the Mayor.

Four other officers and their departments have major roles in the City's financial structure.

The Collector-Treasurer is responsible for supervising the Treasury Department, collecting revenues due the City and Suffolk County, and paying all amounts due for payrolls and to outside vendors. The Collector-Treasurer also manages the investment of City funds, and supervises borrowings by the City in the form of either short-term or long-term debt.

The Auditor monitors internal controls, manages grant funds, provides financial reports, maintains books and records of the City and County, and approves all payments made by the City and County. The Auditor is an ex-officio member of the State-Boston Retirement Board.

The Commissioner of Assessing supervises the Assessing Department and the valuation, for tax levy purposes, of real and personal property located in the City.

The Deputy Director of the Capital Planning Program (CPP) prepares and monitors the City's capital budget and coordinates the long-range capital planning activities of City, County, and School departments.

Two decision making bodies also fill prominent roles in the City's budget process. The legislative body of the City is the City Council, which consists of thirteen members serving two-year terms. Four are elected at large and nine are elected from geographic districts. The Council may enact ordinances and adopt orders which the Mayor may either approve or veto. Except for orders borrowing or appropriating money, the Council may override a mayoral veto by a two-thirds vote. The Council may reject or reduce a budget submitted to it by the Mayor, but may not increase it. For a description of the operating budget process see "Program Budgeting" and "Budget Organization and Glossary."

The City's public schools are under the control of the School Committee, which, as of January, 1991, is appointed by the Mayor. The School Department operating budget is submitted to the Mayor and City Council as part of a budget process parallel to, but separate from the City and County. Chapter 613 of 1987 placed strict controls on the School Department's appropriation process, attempted to limit the potential for overexpenditure, and strengthened the powers of the superintendent vis-a-vis the School Committee.

AUDITING AND BUDGETING PRACTICES

The City prepares its financial statements in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue are used in the annual budget and property tax certification process. The statutory accounting system departs from GAAP in a number of respects. More technical discussions of these differences can be found in the City's official statements relating to bond sales, and in notes to its audited financial statements.

FUND ACCOUNTS

The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. There are currently no transfers between funds. The funds and account groups are organized into four types described below.

Government Funds are those through which most governmental functions are financed.

The *General Fund* is the City's most widely used fund. All financial resources, except those required to be accounted for in other funds, are in the General Fund; the detail of the fund comprises most of this budget submission.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those detailed below) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on City debt.

Capital Project Funds account for financial resources used to acquire, construct, or do large scale renovations to City-owned facilities. These funds are derived principally from general obligation bonds and from federal and state grants.

Proprietary Funds include Enterprise Funds and Internal Service Funds. The measurement focus is upon determination of net income, financial position, and changes in financial position. Accounting principles used for these Fund Types are those applicable to similar businesses in the private sector and thus, these funds are maintained on an accrual basis of accounting.

The City does not maintain Internal Service Funds.

Fiduciary Funds are used to account for assets held in a trustee capacity (Trust Funds) or as an agent (Agency Funds) for individuals, private organizations, other governmental units, and/or other funds. Trust funds include Expendable Trust Funds, Nonexpendable Trust Funds and Pension Trust Funds.

Account Groups: The General Long-Term Obligations Account Group is used to establish control and accountability for general long-term obligations not financed by and accounted for in Enterprise Funds. Examples are abatement refunds, accrued employee sick and vacation leave, and judgments and claims.

The City does not maintain a General Fixed Assets Account Group.

FINANCIAL MANAGEMENT IMPROVEMENTS

Pursuant to state law mandates as well as certain major policy initiatives, the City has established an improved system of internal management controls. These controls are designed to maximize revenue collections, check departmental overspending, and professionalize the City's internal procedures.

Major components of the City's system of financial management controls include:

Integrated Financial System: Financial management was enhanced through the Auditing Department's acquisition of the Local Government Financial System (LGFS) in FY86. This computerized financial management and accounting system tracks standard accounting functions such as revenues, expenditures, accounts payable, accounts receivable and general ledger. In addition, LGFS performs the specialized functions of encumbrance control, fund accounting, and grants management, as well as other accounting and budgeting functions. The utilization of this system

has improved the financial monitoring and reporting of funds management. On-line access to financial information allows department managers to directly evaluate the financial performance of their department as a whole, as well as specific programs within their department.

Program-Based Budgeting: The program-based budgeting format facilitates OBPE efforts to hold departments accountable for their performance and assist them in effecting management or systems changes that will improve the delivery of City services. During each fiscal year OBPE prepares a midyear report to document departmental progress and, at the conclusion of the year, it publishes a final annual report summarizing the performance of the departments.

In addition, the Office of Budget and Program Evaluation reviews all personnel appointments for funding availability and all non-personnel spending for conformance to all City and County departments' spending plans. See "Program Budgeting" for more detail on the program budgeting and monitoring process.

Property Tax Collections: The collection of property taxes has been improved by enhanced tracking systems and more thorough collection procedures and notifications, resulting in increased collections.

The City has implemented an aggressive enforcement program that continues to reduce the number of tax accounts that are delinquent, and to discourage new delinquencies. This program includes the adoption of stricter guidelines for handling delinquent taxes, utilizing a variety of collection remedies authorized by state statute, and working closely with the Commonwealth to refine the tax collection system. For example, the City, following requisite approval from the Massachusetts Department of Revenue, was the first municipality in the Commonwealth to amend tax bills to include past due amounts. This change, coupled with letter writing campaigns to first-time delinquents, has resulted in a significant reduction in the number of past due accounts.

Local Adoption of Pension Reform Act: In FY89, the City opted to participate in a Commonwealth program for local retirement systems that commit to fully funding their pension liabilities. In agreeing to participate, the City committed itself to establishing a funding schedule incorporating a complete amortization of unfunded pension liability over a forty-year period while simultaneously setting aside sufficient funds each year to cover current liability.

In FY92, the state passed a home rule petition sponsored by the City which modified some portions of the FY89 law. It has allowed Boston to include in its cost calculations the improved investment performance, versus plan, which has resulted in a reduction of the City's expense through FY94 as well as fully funding the unfunded liability over a shorter time frame.

Capital Planning: The CPP, of the Public Facilities Department, evaluates the condition of the City's capital stock, forecasts the timing and financial requirements of new construction and rehabilitation, and recommends allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses taken. This ongoing process is documented by an annually updated five-year capital plan.

In addition to its planning functions, CPP also plays an ongoing construction management and supervisory role during the implementation phase of its capital projects. CPP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Management Initiatives: In light of local aid cuts in the past three years, the City has taken additional steps to manage its expenditures. In August, 1989 new restrictions on out-of-state travel, the assignment and use of City vehicles, and equipment purchases were imposed. Additional formal justification is now required to implement personnel transactions.

Beginning with the FY90 budget, selected programs and appropriations were eliminated, and other departments were consolidated to increase efficiency and streamline operations. In addition, the majority of City departments have faced budget cuts for four consecutive fiscal years.

FINANCIAL CONTROLS

Certain controls established in the 1982 Funding Loan Act and its 1986 amendments set limits on flexibility in financial administration. Under the 1982 Funding Loan Act, for example, until April 15 of each year, the Mayor is authorized to reallocate no more than $3 million between departments.

Additionally, the Act, as amended in 1986, limits the amount of personnel expenditures that a department can make in any single quarter, to a specific percentage of its appropriation, and requires Mayoral approval to waive any overexpenditures.

The 1986 amendments also mandated that the City establish a reserve fund which, by FY90, had to be not less than 2 1/2 percent of the preceding year's appropriations for City and County departments, except the School Department, which has its own separate reserve requirement. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year, with the approval of the Mayor and the City Council. As of June 30, 1990, the amount in the City's reserve fund was $17.625 million, an amount which slightly exceeded 2 1/2 percent of the preceding year's appropriation for City and County departments.

Revaluation : State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between the revaluations, the Commonwealth allows municipalities the option to establish new values on the basis of trends for year-to-year increases in assessments or utilize the most recent triennial values. (See "Sources of City Revenue-Property Taxes-Revaluation.")

For FY92, the City completed its fourth three-year revaluation since 1983, to establish values as of January 1, 1991. Each of the prior three state-certified revaluations had dramatically increased the established value of the City's taxable property. As of January 1, 1982, the state certified a valuation of $12.18 billion; as of January 1, 1985, $20.25 billion was certified; and as of January 1, 1988, the state certified $35.4 billion as the value of the City's taxable property.

The most recent valuation of $29.8 billion reflects the stagnant residential property market and temporary surplus of commercial space.

STATUTES AND ORDINANCES GOVERNING BOSTON'S OPERATING BUDGET

The purpose of this section is to set forth summaries of key Commonwealth laws and City ordinances which affect the formulation of Boston's operating budget and its subsequent expenditure. Please note that the material is not all inclusive, but does cover the more important laws guiding the budget process.

In addition to the statutes and ordinances, other budget related dictates can be found in various Mayoral Executive Orders and in the policies and administrative guidelines issued by the Office of Budget and Program Evaluation.

Probably the most important legislation to read for a more precise understanding of Boston's operating budget is Chapter 190 of the Acts of 1982, commonly referred to as the Tregor legislation, and Chapter 701 of the Acts of 1986, known as the Tregor amendments.

ANNUAL APPROPRIATION PROCESS

Section 15 of Chapter 190 of the Acts of 1982, as amended by Section 2 of Chapter 701 of the Acts of 1986 states that "(a)11 appropriations, excepting those for school purposes, to be met with taxes, revenue or any source other than loans, shall originate with the mayor. The mayor, not later than the second Wednesday in April of each year, shall submit to the city council the annual budget of the current expenses of the city and county for the forthcoming fiscal year...

"The city council may reduce or reject any item but, except upon the recommendation of the mayor, shall not increase any item in, nor the total of, a budget nor add any item thereto, nor shall it originate a budget.

"Not later than the second Wednesday in June, the city council shall take definite action on the annual budget by adopting, reducing or rejecting it, and in the event of their failure to do so, the items and the appropriation orders in the budget as recommended by the mayor shall be in effect as if formally adopted by the city council....

"The city council shall take definite action on any supplementary appropriation order and any order for a transfer of appropriations by adopting, reducing or rejecting it within sixty days after it is filed with the city clerk...."

SCHOOL DEPARTMENT BUDGET PROCESS

Section 1D of Chapter 23 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987 states that "(t)he superintendent of schools shall submit to the school committee for approval an annual budget of the school department for the forthcoming fiscal year no later than the first Wednesday in February prior to the beginning of such fiscal year. The school committee may adopt, reject, reduce or increase any item in the recommended budget; provided, however, that if the school committee fails to take definite action on the annual budget on or before the fourth Wednesday in March of each year, the annual budget as recommended by the superintendent shall be deemed approved as if formally approved by the school committee. After approval of an annual budget by the school committee, said superintendent shall submit said ap-

proved budget to the mayor who may approve or reduce the total recommended budget. Thereafter, not later than the second Wednesday in May of each year, the mayor shall submit said budget to the city council for an appropriation of funds. Said superintendent shall approve the appointment of any person except to a budgeted position."

Section 2 of Chapter 224 of the Acts of 1936, as amended by Chapter 613 of the Acts of 1987 further states that "(a) the city of Boston shall annually provide an amount of money sufficient for the support of the public schools as required by law; provided, however, that said city shall not be required to provide more money for the support of the public schools than is appropriated in accordance with the provisions of chapter four hundred and eighty-six of the acts of nineteen hundred and nine, as amended. In acting on appropriations for educational costs, the city council shall vote on the goal amount of the appropriations requested by the mayor, but neither the mayor nor the city council shall allocate appropriations among accounts or place any restriction on such appropriations. The appropriation of said city shall establish the total appropriation for the support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation; provided, however, that if the city auditor determines that school department expenditures in any fiscal year are projected to be in excess of total budgeted expenditures for that fiscal year, as supported by appropriation and other available funding, then the school committee shall not reallocate or transfer funds from any item in the budget for that fiscal year to fund any such projected additional expenditures.

"(b) After the fourth Wednesday of March of any fiscal year, the school committee shall not initiate or authorize any new or additional programs or categories of expenditures requiring additional unbudgeted expenditures unless such programs or categories have been incorporated and fully funded in the budget for the subsequent fiscal year. If such programs or categories have not been incorporated and fully funded in the budget for the subsequent fiscal year, they shall not be initiated or authorized until the school committee shall have amended its budget submission for the subsequent fiscal year to reduce or eliminate other costs, programs or categories in amounts equal to the projected annualized costs of the new or additional programs or categories of expenditures.

"(c) The superintendent of schools shall prepare and submit to the school committee, the city auditor and the city office of budget and program evaluation, a monthly budget update report which shall detail and itemize year-to-date and projected school department expenditures and budget transfers."

SCHOOL DEPARTMENT FINANCIAL AFFAIRS

Section 1B of Chapter 231 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987 notes that "(t)he school committee may delegate, in whole or in part, to the superintendent of schools the authority to approve for the school department the acceptance and expenditure of grants or gifts of funds from the federal government, charitable foundations, private corporations, individuals, or from the commonwealth, its counties, municipalities or an agency thereof, the provisions of section fifty-three A of chapter forty-four of the General Laws notwithstanding.

"(b) The superintendent of schools shall provide to the school committee, the city auditor and the city office of budget and program evaluation of the city of Boston a report, detailing the source, purpose and balance on hand of all funds received or expended pursuant to subsection (a), quarterly."

Section 2 of Chapter 231 of the Acts of 1906, as amended by of Chapter 613 of the Acts of 1987 states that "(s)ubject to appropriations therefor, the superintendent of schools shall have the exclusive authority to make on behalf of the school committee contracts, or amendments to contracts, for the purchase or rental of equipment, materials, goods or supplies, leases of property, alterations and repairs of school property, and for professional or other services, with the exception of collective bargaining agreements and contracts for the transpor-

tation of students. All school department contracts or amendments to contracts shall otherwise conform to the requirements of the city charter of the city of Boston.

"(b) With respect to all contracts, agreements or amendments thereto made or entered into by the school department, the superintendent shall be responsible for establishing procedures for auditing and monitoring the compliance of the parties with the terms and obligations of such contracts, agreements or amendments thereto."

RESERVE FUND

Section 7 of Chapter 701 of the Acts of 1986 requires the creation of an operating budget Reserve Fund in order to deal with "extraordinary and unforeseen expenditures." The section goes on to state that "prior to the date when the tax rate for a fiscal year is fixed, include in the appropriations for such a fiscal year as a segregated reserve fund a sum not less than two and one-half percent of the preceding year's appropriations for city and county departments, excepting the school department...

"The mayor, with the approval of the city council, may make direct drafts or transfers against this fund before the close of the fiscal year, provided that no such drafts or transfers be made before June first in any fiscal year.

"Each transfer recommended by the mayor to the city council shall be accompanied by written documentation detailing the amount of such transfers and an explanation for the transfer...."

This section further notes penalty provisions for exhausting the Reserve Fund and provisions for stepping up the fund to the 2 1/2% level. The section requires a 1% contribution for FY87, 1 1/2% for FY88, 2% for FY89 and the full 2 1/2% starting in FY90.

The section then notes that "the school department shall establish a segregated reserve fund of not less than one percent of the current fiscal year's appropriations to the school department within ten days of final approval of such appropriations. No expenditures may be made from this (school department reserve) fund before May first in any fiscal year..." and "shall require the approval of the mayor and the city council."

BUDGET ALLOTMENT PROCESS AND REALLOCATIONS

Section 18 of Chapter 180 of the Acts of 1982, as amended by Sections 8 and 9 of Chapter 701 of the Acts of 1986 requires that "(o)n or before August first of each year, or within ten days of the annual appropriation order for such fiscal year whichever shall occur later, the city or county officials in charge of departments or agencies, including...the school department shall submit to the city auditor, with a copy to the city clerk...an allotment schedule of the appropriations of all personnel categories included in said budget, indicating the amounts to be expended by the department or agency for such purposes during each of the fiscal quarters of said fiscal year...(The allotment for the school department may not be greater than 20% for the first quarter, and not greater than 30% in each of the remaining three quarters.) (Allotments for city and county agencies may not exceed 30% for first or second quarters and for the third and fourth quarters may not be less than 21%.)

"Whenever the city auditor determines that any department or agency, including the school department will exhaust or has exhausted its quarterly allotment and any amounts unexpended in previous quarters, he shall give notice in writing to such effect to the department head, the mayor and the city clerk, who shall transmit the same to city council.

"The mayor, within seven days after receiving such notice, shall determine whether to waive or enforce such allotment. If the allotment...is waived or not enforced...the department or agency head shall reduce the subsequent quarter's allotments appropriately and the director of administrative services, within seven days, shall state in writing to the city council and the city clerk what reductions in each subsequent quarter's allotment will be taken or what reallocations or transfers will be made to support the spending level in each subsequent quarter's allotment. If the allotment for such quarter is enforced and not waived, thereafter

the department shall terminate all personnel expenses for the remainder of such quarter....

"No personal expenses earned or accrued, within any department, shall be charged to or paid from such department's or agency's allotment of a subsequent quarter without approval by the mayor, except for subsequently determined retroactive compensation adjustments.

"Approval of a payroll for payment of wages, or salaries or other personnel expenses which would result in an expenditure in excess of the allotment shall be a violation by the department or agency head....

"To insure that the overall city and county spending program remains in balance, the mayor may reallocate no more than three million dollars of non-personnel appropriations other than school appropriations during a fiscal year to other departmental purposes provided that in no department from which appropriations have been reallocated in accordance with this section shall any transfers be made...from personal services to non-personal services, except with the approval of a two-thirds vote of city council, if such transfer would require the layoff of departmental personnel, who have been permanently appointed to a position in the department....

"No reallocation may be made under this section after April fifteenth in any fiscal year.

"A list of each reallocation made by the mayor shall be transmitted to the city council and the city clerk by the city auditor by April thirtieth in any fiscal year. In each case the report shall state the accounts from which the transferred funds were taken and the accounts to which the funds were reallocated, and the reasons therefor."

TRANSFER OF APPROPRIATIONS

Section 23 of Chapter 190 of the Acts of 1982, as amended by Section 3 of Chapter 701 of the Acts of 1986 states that "(a)fter an appropriation of money has been made...no transfer of any part of the money thus appropriated, between such department or office and another department or office, shall be made, except in accordance with and after the written recommendation of the mayor to the city council, approved by a...vote of two-thirds of all the members of the city council, provided that the city auditor, with the approval in each instance of the mayor, may make transfers, other than for personal services, from any item to any other item within the appropriations for a department, division of a department or county office.

"After the close of the fiscal year, the city auditor may with the approval of the mayor in each instance, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose only of closing the accounts of such fiscal year, provided further that the city auditor within seventy days after the close of the fiscal year, shall transmit to city council and the city clerk a report listing what income, taxes, or funds were applied and what transfers were made and the reasons therefor."

PENALTY FOR OVERSPENDING BUDGET

Section 17 of Chapter 190 of the Acts of 1982 (Tregor) states that "(n)o official of (the) city or county except in the case of extreme emergency involving the health and safety of the people or their property, shall expend intentionally in any fiscal year any sum in excess of the appropriations duly made in accordance with law, nor involve the city in any contract for the future payment of money in excess of such appropriations....

"Any official who violates the provisions of this section shall be personally liable to the city for any amounts expended intentionally in excess of an appropriation to the extent the city does not recover such amounts from the person to whom paid...."

APPROPRIATION RESTRICTIONS

Section 10 of Chapter 701 of the Acts of 1986 requires that "the mayor and city council shall appropriate for the hospitalization and insurance account an amount not less than the average of the past three years actual expenditures from those ac-

counts. The city auditor shall certify, in writing to the board of assessors, that adequate funds are provided in the operating budget for existing collective bargaining contracts...."

DISPOSITION OF SURPLUS PROPERTY RESTRICTIONS

Section 24 of Chapter 190 of the Acts of 1982, as amended by Section 4 of Chapter 701 of the Acts of 1986, requires that "proceeds from the disposition of any surplus property shall be deposited in a separate fund which shall be known as the Surplus Property Disposition Fund, and shall be used only as follows: (1) the amount equivalent to the debt incurred, and interest paid or payable thereon, as a result of the acquisition or improvement from time to time of the property shall be used only for purposes for which the city is authorized to incur debt for a period of ten years or more; (2) all proceeds in excess of such amount shall be credited to the capital fund of the city unless the city council by a majority vote determines with the approval of the mayor to credit such proceeds to the general fund of the city."

DUTIES OF SUPERVISOR OF BUDGETS

CBC Ord. 5, s. 5 states that "(t)he supervisor of budgets shall, under the direction of the mayor and in consultation with the director of administrative services, prepare in segregated form the annual and all supplementary budgets...and shall report to the mayor on all subsequent revisions of the items in any budget....

"The supervisor of budgets shall also prepare...all transfer orders....

"The supervisor of budgets shall further prepare...the form of estimate sheets to be used by each officer, board and department, and each division of a department for which the city appropriates money, and the form of monthly report of such officer, board and department, and each division thereof, showing expenditures to date of all appropriations by them.

"The supervisor of budgets shall, in addition, have the powers and perform the duties conferred or imposed on the budget commissioner by any statute other than section 56 of chapter 35 of the General Laws."

SICUT PATRIBUS SIT DEUS NOBIS.

BOSTONIA.

CONDITA A.D.

1630.

CIVITATIS REGIMINE DONATA A.D. 1822.

BOSTON — ITS ECONOMY, PEOPLE AND NEIGHBORHOODS

As a major regional center, Boston's economic and social well-being is important not only to its 600,000 residents, but also to the surrounding area. Boston's economic and social activity is a driving force in a substantial part of Massachusetts and indeed, the New England region.

Boston provides a wide range of services to all its citizens as well as to the hundreds of thousands of commuters, students, and tourists in Boston each day. However, the City finds it especially trying to meet these "outside" needs when there are many Boston residents and neighborhoods which did not share in the general renaissance in the Massachusetts economy in the 1980's and who are particularly vulnerable to the impacts of the current recession.

BOSTON'S ROLE IN THE REGIONAL ECONOMY

The City of Boston is the metropolitan center of the Commonwealth and the New England region, with one of the largest concentrations of population, employment, and income in the nation. Its leadership assisted the region in surpassing the national average on several important measures in the years between 1976 and 1988. However, beginning in 1988 this trend reversed itself as the economy experienced a significant downturn that has been particularly severe in the Northeast. Regional unemployment had fallen below the national rate in 1978 for the first time since 1967 and remained below that rate through 1988. In 1990 and consistently through 1991, however, it was 10 to 15 percent above the national average. December 1991 data show that Boston's unemployment rate of 7.2 percent was higher than the national average of 6.7 percent but below the Massachusetts rate of 9.0 percent.

The City's role as the "hub" of the region is clear. Boston's Logan International Airport, with over 6,000 domestic and 500 international flights a week, is the eleventh busiest U.S. airport. The Port of Boston is one of the oldest and busiest seaports in the world, serving both containerized and bulk shipping. Boston's public transportation system, reaching into its many neighborhoods and linking to the regional commuter rail system, connects three million people to the central city. The highway system provides access for commuters from surface arteries and three limited access interstate highways including the Massachusetts Turnpike, as well as two circumferential routes, ten and twenty-five miles out from the City. Along both of these routes are major industrial parks and high-tech industry.

Commuting patterns highlight the City's influence in the metropolitan region. With 9.5 percent of the state's population, Boston provides 16.75 percent of all jobs and 23 percent of all goods and services produced within the state. In the 25 cities and towns with the highest per capita income in the Commonwealth (and a total work force of 212,468), more than one in four resident workers had jobs in Boston. The challenge to Boston is to provide basic City services to meet the needs of thousands of daily commuters and the businesses for which they work, while also providing services required by Boston residents.

BOSTON'S ECONOMY

The Changing Nature of Boston Jobs. Boston appears to have the state's better paying jobs, al-

though many of these jobs are not held by Boston residents. Wages earned, by place of work, have been consistently higher in Boston than in the metropolitan area and the Commonwealth as a whole during each year between 1980 and 1990. Except for manufacturing and wholesale trade (industries with a diminishing share in employment in the City), wages in Boston were higher than the Commonwealth average for all types of industry. For all industries combined, the City's average wage of $30,922 was 11.5 percent greater than in the metropolitan area and 19.2 percent greater than in the state.

Between 1986 and 1990 total employment in the City decreased by 8,654. The five industries realizing the largest percentage decrease in employment between 1980 and 1990 were manufacturing, transportation, communication and utilities, and wholesale trade. (See Figures 1 and 2.)

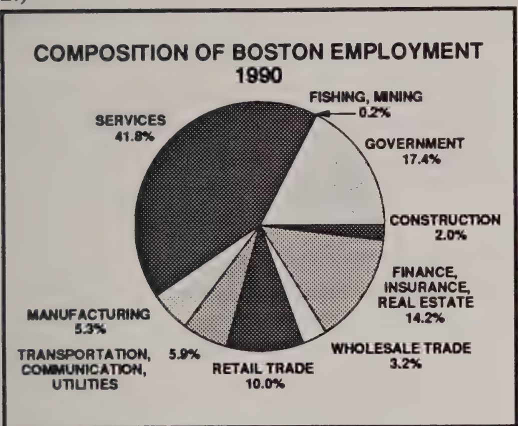

FIGURE 1

The City's economy, however, is more specialized in the financial, professional and business service, and institutional sectors than the suburban region. This distinction, plus the City's basic economic diversity, makes the City less susceptible to cyclical trends characteristic of manufacturing-based economies, and correspondingly more stable than cities with economies significantly more reliant upon manufacturing.

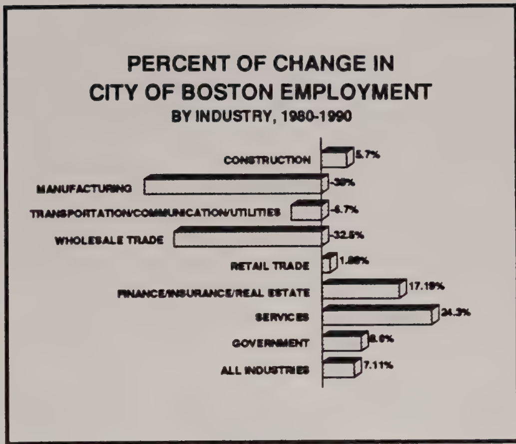

FIGURE 2

The mix of Boston jobs held by City residents is changing in a similar fashion. Figure 3 shows that Boston residents are increasingly likely to hold white collar jobs than blue collar jobs in the years since 1960. Professional and technical jobs within the white collar category made up the greatest share of all in 1985, and gained the most in share since 1960.

Finance, Health, and Education Industries. Boston is a major financial, educational, and medical

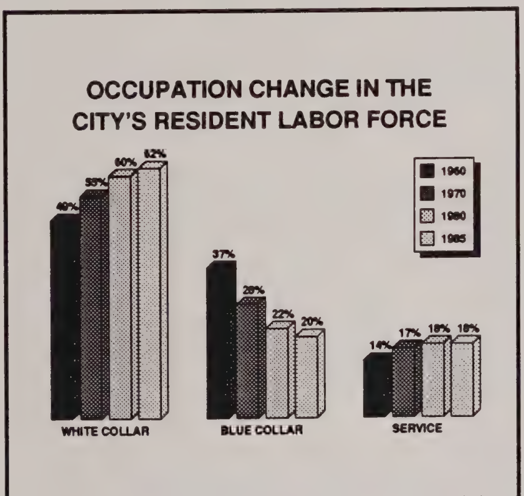

FIGURE 3

center. Nine out of ten of Boston's largest employers are involved in these industries. During the period 1986 to 1990 these service industries expanded their share of the City's total employment from 60 to 62 percent. Referred to as the birthplace of the mutual funds industry, and a home of venture capitalism, Boston has over 1,000 financial institutions located within the City. In addition, the City has 36 universities, colleges, and community colleges as well as 26 career or technical schools which combined have an enrollment of over 125,000 students. The City has a higher ratio of students to population than any other major U.S. city.

Boston also is home to 31 hospitals, which provide 47,862 full-time jobs and an annual payroll of over $1 billion. Boston hosts the medical and dental schools of Harvard, Tufts, and Boston Universities. In addition, the City has 30 local community-based health centers, of which six are affiliated with Boston City Hospital (BCH), and most of the others receive some funding from BCH.

However, these educational, cultural, and health service non-profit institutions receive the full range of basic City services at a cost to the City of Boston. Fifty percent of the total value of Boston's property is tax exempt.

Construction Activity. During the last two decades, the public and private sectors have carried out major construction projects that have played an important part in transforming the City's economic base. Since 1975 the private sector has added 16 million square feet of building space — five times more than was added in the preceding 35 years. In this period record amounts of office space were built and substantial increases in the number of hotel rooms, medical, and educational facilities were realized in Boston.

During 1990 and 1991, significant additions to Boston's industrial base included Groupe Bull's investment of $17 million at its Brighton plant. The Genzyme Corporation has also committed to start construction in 1992 of a $75 million manufacturing plant in Allston.

In the near future, construction will continue to play a major role in the area's economic activity. During the period 1986 to 1989, total construction activity was estimated at $6 billion. The Boston Harbor clean-up project, the depression of the Central Artery, the construction of the Third Harbor Tunnel, and Phase II of the International Place development will be major efforts that will continue unprecedented levels of post-WWII construction activity. Of these projects, only Phase II of International Place, however, will add to the taxable property base.

BOSTON'S PEOPLE — A CHANGING URBAN POPULATION

Income Growth and Economic Disparity. Although Boston has emerged as one of the preeminent job producing cities in the country, with a ratio of jobs to population second only to the nation's capital, Boston is also ranked 240th in resident per capita income of 351 Massachusetts cities and towns and is a significant 16 percent below the average state per capita income.

Per capita income in Boston increased from $10,359 in 1980, to $15,584 in 1985, to $21,676 in 1989. Although Boston's per capita income remains below that of the metropolitan area and the state as a whole, the City has been making relative gains. Data available since 1982 show that the City's per capita income rose at a faster rate than in the metropolitan area, the state, the New England region, and the U.S. as a whole.

The City's median household income has been rising in recent years as well, from $7,835 in 1970, to $12,530 in 1980, and to $19,250 in 1985. As expected, white households, male-headed households, and non-elderly households have higher incomes than minority, female-headed, and elderly households, respectively. The most important source of income for both non-poor and poor households is salary and wages.

Despite increasing prosperity, Boston is a city of income contrasts. Average household income in Boston was $23,100 in 1985, but 28 percent of Boston households had incomes of less than

$10,000, while 22 percent of households had more than $35,000 in annual income. One out of five Boston residents lived in a household with an income below the official poverty line.

Poverty rates in Boston are higher among children, single parent families, minorities, and recent immigrants to Boston. More than 30 percent of the residents of South Boston, Jamaica Plain, Roxbury, and Dorchester live in households with incomes below the poverty line. On the other hand, less than 9 percent of the residents of Central Boston, Back Bay-Beacon Hill, Roslindale, West Roxbury and Hyde Park live in poor households.

Unemployment in Boston. Since 1982 and until recently, unemployment in the City had steadily declined. In 1980, unemployment was 6.1 percent, down from a high in 1975 of 12.8 percent. The unemployment rate had remained below the national average in each of the years since 1980. In 1987, the Boston unemployment rate was 3.2 percent, the same as the state-wide average, and well below the national level of 6.2 percent. Since 1989, however, the state, metropolitan and City unemployment rates have increased. In December, 1991, the City's unemployment rate was 7.2 percent, a rise from 5.5 percent a year earlier and at a level above the 6.7 percent national rate. A survey of City households conducted in the spring of 1985 reported a minority unemployment rate that was double the City's overall average, and a youth unemployment rate about triple the City-wide average.

The Recession and the Local Economy. The beginning of the nineties saw the downturn of what was clearly an overheated local economy, fueled in large part by unsustainable and speculative real estate values. Strong demand in Boston and the surrounding area during the late 1980's caused rapidly increasing housing prices, higher rents, and corresponding increases in the CPI since 1983. The recession, combined with large real estate losses in the financial sector, reversed this trend. As a result, the median sales price of existing single family homes in Boston fell 3.3 percent during the period 1989 to 1991, compared with an increase of 9.3 percent in the nation as a whole. Between November, 1989 and November, 1991, the cost of living in the Boston area rose 9.16 percent; this increase was 3 percent less than the 9.45 percent increase in the nation as a whole.

A Stable and Diverse Population. Boston's population reached its low point in 1980, when it had fallen by almost a third from its peak of 801,000 in 1950. Between 1980 and 1990 the City of Boston has experienced comparatively even population growth. This level population growth has been partially credited for the extraordinary wage increases and low unemployment rates of the eighties. The 1990 Census recorded the City's population at 574,283, representing a slight 2 percent increase over the City's 1980 population of 562,994. Projections made in 1991 forecast a further increase of slightly more than 2.5 percent over the next ten years (Figure 4.)

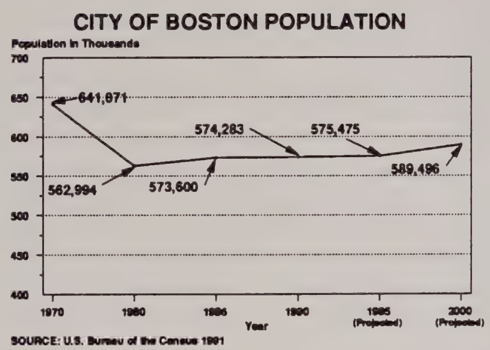

FIGURE 4

The level Census figure has occurred despite several factors which normally are expected to increase population. Among these are the improvement of neighborhood housing conditions, a rising birth rate in Boston since 1977, an influx of immigrants from Asia, a new flow of immigrants from Ireland, and the move of "empty nesters" from the suburbs into Boston. Further, lower property taxes, an improved racial climate in the City, and enhanced amenities made Boston a more

attractive place to live. On the other hand, some new immigrants are especially in need of City support services to help them adapt to life in the U.S.

The population of Boston is increasingly made up of young adult and middle-aged groups. In 1990, the median age in Boston was 30.3 years, 10 percent younger than the Massachusetts median. This mirrors national patterns. For example, the number of children aged 5 to 14 years old declined between 1985 and 1990 from 11.6 percent to 9.9 percent of the population, while the 35-44 year old population increased from 9.4 percent to 13.6 percent of the total. During the period 1985 to 1990, Boston residents who were age 65 or older increased from 11 to 13.7 percent.

Household size in Boston is stabilizing after a long decline. While in 1970 average household size was 2.76 persons, it declined to 2.4 persons in 1980, and 2.3 persons in 1985. The 1990 Census showed a slight increase to 2.37 persons. The proportion of households made up of families (rather than unrelated individuals) had decreased to 50.7 percent of total household units in Boston in 1990, after declining from 65 percent in 1970 to 53 percent in 1980, again reflecting national trends.

Boston maintains a rich cultural heritage. The range of ethnic backgrounds and countries of origin shows the growing diversity of Boston's population. While Irish, Italian, and other European ancestries predominate in most neighborhoods, persons of Haitian, West Indian, Middle Eastern, African, Chinese, and other Asian heritages make up more than 10 percent of the population in some neighborhoods.

During the period 1980 to 1990, Boston's minority population has increased in proportion to whites. The racial shifts are profound. Boston's minority population comprised 30 percent of the total City population in 1980, and grew to 41 percent in 1990. Since 1980, while the African-American, Asian and Pacific Island, and Hispanic populations have continued to increase, the white population has declined 11.4 percent. This reverses a trend during the period from 1970 to 1980, when there was a substantial influx of 25-34 year olds who were mainly white middle class professionals, resulting in a net population growth in the more centrally located neighborhoods even while the overall City population was falling.

The proportion of persons speaking a language other than English tends to follow the patterns of ancestry and country of birth by neighborhood. While 80 percent of Bostonians speak English at home, other languages frequently spoken at home are Spanish (6 percent), French and Creole (3 percent), Italian (2 percent), and Chinese (2 percent). Other languages comprise the remaining 7 percent non-English languages spoken at home.

Boston's Neighborhoods. While Boston's population of 600,000 lives in a City of only 43 square miles, its neighborhoods are diverse. Based on a 1985 BRA survey, neighborhoods vary significantly in average age and family status. "Older family" neighborhoods include East Boston, Charlestown, South Boston, Central, and West Roxbury. In these neighborhoods, up to 40 percent of the family units are husband-wife families with about half having children, about 5 percent are other families most of which have children, and the rest are unrelated individuals and roommates. "Younger family" neighborhoods include Mattapan, Roslindale, and Hyde Park, with nearly 40 percent of family units made up of husband-wife families with children. West Roxbury, while more diverse in family age groups, has about one-third of its family units consisting of husbands and wives with children.

"Mixed neighborhoods" include Jamaica Plain, North and South Dorchester, and Roxbury; in these neighborhoods between one-third and one-half of the family units are unrelated individuals, with the rest roughly evenly divided between husband-wife and other families. "Young singles" neighborhoods include Fenway-Kenmore and Allston-Brighton; about 80 percent of the family units here are individuals, with about half living alone and half with unrelated roommates. The "young to middle aged singles" predominate in Back Bay-Beacon Hill and the South End; again, 80 percent of the family units are made up of unrelated individuals with about 60 percent living alone.

There are two predominant trends evident in changes found in family composition between 1980 and 1985. Jamaica Plain, Mattapan, Roslindale, West Roxbury, and Hyde Park have an increasing proportion of families with children; on the other hand, higher proportions of unrelated individuals are increasingly found in East Boston, Charlestown, the South End, and Allston-Brighton.

BUDGET ORGANIZATION AND GLOSSARY OF TERMS

The City of Boston's Program Budget provides a wealth of information related to City services and their associated costs. The Budget presents recommended resource allocations in terms of personnel, facilities, and goods and services. It also describes the services provided by City and County departments, divisions, commissions, and other offices, and specifically identifies levels of services that will be provided by these entities in FY93.

This Chapter is a guide to the organization of the FY93 Operating Budget.

ORGANIZATION OF THE VOLUMES

Volume I provides a City-wide review of information on the FY93 budget and on the context in which it is prepared. Sections include:

- an executive summary,
- financial trends,
- local aid,
- estimated revenues,
- a summary of the budget,
- the tax and appropriation orders,
- Boston's program budgeting,
- goal setting in the City,
- Boston's capital planning,
- financial management in the City,
- general laws and statutes governing the City,
- Boston's people and its economy, and,
- the organization of the budget and a glossary of terms.

The budgets for each City and County department and for other appropriations are presented in Volumes II, III, and IV, as follows:

- *Volume II:* General Neighborhood Services: Departments A through O
- *Volume III:* General Neighborhood Services: Departments P through Z, and
- *Volume IV:* Support Services

Volume V presents information on City departments' use of external funds from a variety of sources.

THE BUILDING BLOCKS: PROGRAM BUDGETS

Activities and services of the City are grouped into "programs" for budgeting and management purposes. The budget for each department is presented on a program-by-program basis.

A "program" is defined as:

> "An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives."

For the purposes of program budgeting and program evaluation, a program can consist of direct services to the public and neighborhoods of the City (police patrol or voter registration), or traditional City staff functions (administrative services or engineering and design).

Some City activities may not be defined as separate programs although they may be self-contained operations. For example, a fire station is not a separate program although it is a cost center, for accounting purposes, within the Fire Department's Fire Suppression Program.

While these program budgets serve as the basic building blocks of the budget, there are two additional organizational levels above the program level in the Budget:

- *The Division Level:* for budgeted units within some departments, and
- *The Department Level:* which includes departments, commissions, and other offices.

The basic budget presentation is modified slightly depending on the structure of a department.

UNDERSTANDING THE INFORMATION PRESENTED

Three basic components are used to present the FY93 budget. These are:

- Description of organization and services,
- Financial data, and
- Personnel data.

Description of Organization and Services

This describes organizational missions, services, objectives' performance measurements, and service levels for FY93.

- *Mission statement:* The mission statements for departments, divisions, and programs are fundamental statements of purpose for a unit or program.
- *Description of Services:* These statements provide a general overview and examples of the major services that are provided by a department or division to the public, for public facilities, or for other units of government.
- *Objectives:* Objectives are major proposed accomplishments or activities. Objectives are usually more specific than "goals"; they are measurable, quantifiable, and time-bound. Generally, there is continuity between objectives from year to year.

  Objectives are numbered roughly in order of priority and corresponding criteria and service levels can be identified easily. An organization's most fundamental objectives are listed first, followed by objectives of a more temporary nature.
- *Performance Measures:* For every objective defined in the program budgets, at least one criterion has been defined for measuring performance regarding that objective.

  Criteria are indicators of service provided. They include measures of workload, output, work or service quality, efficiency, effectiveness, and productivity. Some criteria for FY93 are the same as those in previous years; however, many have been refined to measure more accurately the objective being pursued.
- *FY93 Promised Levels of Service:* For each criterion, the department or division indicates a level of service to be provided during the forthcoming fiscal year. The program, division, and department managers have promised to produce these service levels given the funding and personnel shown in the budget for FY93.

  In cases where the service level depends on an external factor (for example, the number of tax abatements or building permits applied for), the promised service level reflects the workload which the program is equipped to handle in an efficient and effective manner.

Departments or divisions report progress toward attaining these promised levels of service on a monthly basis. This progress is summarized publicly in a mid-year and final annual report.

Financial Data

The financial data identify the major groups and object codes of expenditures (Personal Services/Overtime, Supplies and Materials/Food Supplies, etc.) and the historical expenditures and proposed appropriations in these groups and objects.

Two financial sheets are used in the FY93 Operating Budget.

History by Object Code: The objects of expenditure are listed with six expenditure groups. Dollar amounts are shown for:

- FY90 actual expenditure,
- FY91 actual expenditure,
- FY92 budget,
- FY93 proposed appropriation, and
- The difference between the FY92 budget and the FY93 proposed appropriation.

Program Summary by Object: The expenditure objects are listed within the six groups, and the department FY93 recommended budget is broken down by program, and totaled to the department level.

Personnel Data

The personnel data shows funding for permanent positions, including existing and proposed positions. Personnel data for departments, divisions, and programs is provided in the same format. All permanent positions are listed by salary grade within the department, division, or program. The total salary request is listed for these positions.

For each position shown, the following information is provided:

- *Position:* An abbreviation of the job title of the position.
- *Grade:* The code for the salary grade of the position.
- *Filled 3/17/92:* The number of full-time equivalent employees in this job title as of March 17, 1992.
- *Salary Requirement:* This column is used to show the currently authorized full-time equivalent personnel quota, and the total dollars needed to fund the quota.
- *Deletions:* The full-time equivalent number of permanent positions, and the total salaries, to be subtracted from the numbers in the "Salary Requirements" column.
- *Additions:* The full-time equivalent number of permanent positions, and the total salaries, to be added to the numbers in the "Salary Requirements" column.
- *Total:* The resulting quota and the total salaries allowed in the budget.

The total dollar permanent personnel budget figure, shown at the bottom right of the personnel sheet, is then adjusted as follows:

- *Differential Payments:* These payments are amounts paid to employees in intermittent job titles and employees entitled to shift differential payments. This figure is an addition to salary requirements.
- *Other:* These figures, where shown, cover other payments such as sick leave and vacation buy-back, longevity pay, etc.
- *Salary Savings:* These savings, subtracted from the salary requirements calculated, are either estimated amounts projected to result from employee turnover based upon historical experience, or savings as a result of personnel reductions.

GLOSSARY OF TERMS

Account Number: The number by which the Auditor categorizes an appropriation. For budget purposes, also known as appropriation code.

Accrual Basis: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Allotment: The amount which can be expended quarterly for personnel as determined by the terms of the Tregor legislation.

Appropriation: The legal authorization to expend funds during a specific period, usually one fiscal year. In Boston, the City Council is the appropriating authority.

Base Budget: A budget which describes the funding required to maintain existing levels of service or activity.

Exhibit
Expenditure Groups, Codes, and Objects

Group	Code	Object
Personal Services	0100	Permanent Employees
	0110	Emergency Employees
	0120	Overtime
	0160	Unemployment Comp
	0170	Workers' Comp
Contractual Services	0210	Communications
	0220	Light, Heat, Power
	0230	Water and Sewer
	0250	Garbage/Waste Removal
	0260	Repairs: Buildings and Structures
	0270	Repairs and Service: Equipment
	0280	Transport of Persons
	0290	Miscellaneous Contractual Services
Supplies and Materials	0300	Auto Energy Supplies
	0320	Food Supplies
	0330	Heating Supplies and Materiais
	0340	Household Supplies and Materials
	0350	Medical, Dental and Related
	0360	Office Supplies and Materials
	0370	Clothing Allowance
	0390	Miscellaneous Supplies and Materials
Current Charges and Obligations	0450	Aid to Veterans
	0460	Equipment Lease/Purchase
	0470	Indemnification
	0490	Other Current Charges
Equipment	0500	Automotive Equipment
	0560	Office Furniture and Equipment
	0590	Miscellaneous Equipment
Other	0600	Special Appropriation
	0700	Structures and Improvements
	0800	Land and Non-structural

Budget: A formal estimate of expenditures and revenues for a defined period, usually for one year.

Budget Amendment: A change from originally budgeted quotas; the forms filed by departments with the Office of Personnel Management and the Office of Budget and Program Evaluation to justify these changes.

Capital Budget: A plan of proposed outlays for acquiring long-term assets and the means for financing those acquisitions. Normally financing is by long-term debt.

Cash basis: A basis of accounting under which transactions are recognized only when cash changes hands.

Chargeback: A method of assessing departments for costs incurred by them for which they are not billed directly. Charges for centrex telephone, postage, and printing are examples.

Cherry Sheet: A cherry-colored form showing all Commonwealth and county charges and reimbursements to a city or town as certified by the state Director of the Bureau of Accounts.

Collective Bargaining: The process of negotiations between the city administration and bargaining units (unions) regarding the salary and fringe benefits of City employees.

Commission: An appointed policy setting body.

Credit Balance: See departmental deficit.

Credit Transfer: The transfer of appropriations from one object code to another, within a department; the form used to effect such a change.

Debit Transfer: Moving actual expenditures from one object code to another within or between departments; the form used for such moves. Usually used as a correcting entry.

Department: A major service-providing entity of City government, established by law.

Departmental Deficit: A condition which exists when departmental expenditures exceed departmental appropriations. Also refers to the over-expended amount and credit balance.

Department Income: Income flowing to a specific City department, usually as a result of user revenues applied for services rendered. Parking meter charges, building permit fees, and traffic fines are examples of departmental income.

Division: A budgeted sub-unit of a department.

Encumbrance: Funds set aside from an appropriation to pay a known future liability.

Excise Tax: A tax applying to a specific industry or good. The jet fuel tax and the hotel/motel occupancy tax are examples of excise taxes.

Expenditure: An actual payment for goods or services received.

External Fund: Money received by an agency which is not generated from City sources, such as grants or trusts.

Fiscal Year: The twelve month financial period used by the City which begins July 1 and ends June 30 of the following calendar year. The City's fiscal year is numbered according to the year in which it ends.

Full-Time Equivalent Position: A concept used to group together part-time positions into full time units.

Fund: An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources with all related liabilities, obligations, reserves, and equities, segregated to carry on specific activities or attaining certain objectives. Among the fund types used by the City are: General, Special, Trust, and Capital.

GAAP: Generally Accepted Accounting Principles. There are twelve basic principles of accounting and reporting applicable to state and local governments. These include the use of the modified accrual or accrual basis of accounting, as appropriate, for measuring financial position and operating results. These principles must be observed in order to provide a basis of comparison for governmental units.

Goal: A statement, in general terms, of a desired condition, state of affairs, or situation. Goals are long-term in nature, and are not usually directly measurable in themselves. The establishment of goals helps define the mission that agencies need to carry out.

Grant Year: The grant accounting period designated by the requirements of a specific grant.

Headcount: The actual number of full-time or full-time equivalent employees in a department at any given point in time. The headcount will change from time to time as employees are hired or terminated.

Line Item: See Object Code.

Mission: A fundamental description of what is done, including a general overview of the purposes and major activities of an agency or program.

Modified Accrual Basis: The accrual basis of accounting adapted to the governmental fund type, wherein only current assets and current liabilities are generally reported on fund balance sheets, and fund operating statements present "financial flow" information (revenues and expenditures). Revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are recognized when the related fund liability is incurred except for a few specific exceptions. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

Object Code: An expenditure classification according to the type of item purchased or service obtained; for example, emergency employees, communications, food supplies, automotive equipment.

Operating Budget: A legally adopted plan for anticipated expenditures for personnel, supplies, and services in one fiscal year.

Performance Measure: An indicator of work and/or service provided. Measures can be defined for identifying output, work or service quality, efficiency, effectiveness, and productivity.

Program: An organized group of activities, and the resources to carry them out, aimed at attaining one or more related objectives.

Program Criterion: A concise description, in quantifiable terms, of the levels of output or work or service quality promised by program managers for the budget identified.

Program Evaluation: The process of comparing actual service levels achieved with promised results; also refers to assessing, for the purpose of improving, the way a program works.

Program Objective: A statement of proposed accomplishments or attainments. Objectives are short-term in nature and are measurable.

Proposition 2 1/2: A state-wide tax limitation initiative petition limiting the property tax levy in cities and towns in the Commonwealth to 2 1/2% of the full and fair cash valuation of the taxable real and personal property in that city or town. The statute also places an annual growth cap of 2 1/2% on the increase in the property tax levy.

Quota: The planned number of positions which can be funded by a department budget. This can refer either to specific titles or to the number of personnel funded in the entire department. The quota of positions will change, from time to time, by means of a budget amendment, approved by the Office of Budget & Program Evaluation and the Office of Personnel Management. The actual number of personnel working in a department at any one point in time may differ from the quota.

Reallocation: A transfer by the Mayor of up to $3 million authorized under the Tregor legislation, prior to April 15, to relieve departmental deficits, or meet unanticipated financial problems.

Reserve Fund: An appropriation for contingencies.

Revenue: Income received by the City.

Salary Savings: For budget purposes, an amount that will be saved from annual turnover of personnel in any department.

Special Appropriation: An authorization to expend funds for a specific project not encompassed by normal operating categories.

Special Revenue Fund: Used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or sources for major capital projects) that are legally restricted to expenditures for specific purposes. A special revenue fund is accounted for in the same manner as a General Fund.

STAT: Statutory accounting and reporting which is adopted by a legislative body of a governmental entity. The method of recording and reporting actual expenditures and revenues within a plan of financial operations that establishes a basis for the control and evaluation of activities financed through the General Fund. When the budget basis and basis of accounting are different, a governmental unit usually maintains its records on a budget basis.

State Distributions: All City revenue flowing from the state. Major categories include reimbursement for loss of taxes, educational distributions and reimbursements, funds for direct education expenditures, general government reimbursements and distributions.

Sub-Object: A detailed breakdown of an Object Code.

Sub-Program: A sub-program is defined discretely, for purposes of management, which along with other related sub-programs makes up a larger program.

Supplementary Appropriation: An appropriation submitted to the City Council after the main budget has been approved, which must specify a revenue source.

Third Party Payment: Medical payments, usually from an insurance carrier to a health care provider on behalf of an injured or infirm party.

Trust Funds: Funds held by the City in a fiduciary role, to be expended for the purposes specified by the donor.

Unliquidated Reserve: A fund established at year end, used to pay for goods and services received this year, but not billed until next year.